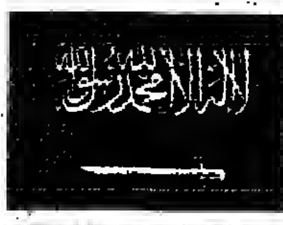
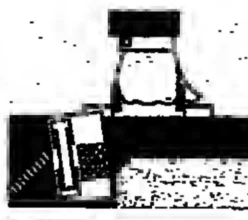
FINANCIAL TIMES



Saudi Arabia stirs

Tough decisions ahead

Page 14



Lucy Kellaway

The wrong time for right spacing

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Media futures

Murdoch's moves in pay-TV tussle

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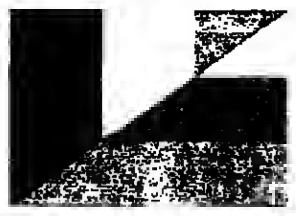


Today's surveys

Russia Separate section

Burgundy Pages 25-28

World Business Newspaper MONDAY APRIL 10 1995 D8523A

Gaza bomb attacks raise doubts over peace timetable

Two suicide bomb attacks, which killed seven people and wounded 45 in the *Gaza Strip* yesterday, raised fresh doubts over whether Israel would honour the July 1 deadline for Palestinian elections and for redeployment of its forces from West Bank Arab towns and villages. The militant Moslem groups Islamic Jihad and Hamas claimed responsibility for the bombings, which took place near two isolated *Jewish settlements* south of Gaza city. Page 5

Fund is Pioneer in Russia: US fund management group Pioneer Investments is the first foreign investor to buy a majority stake in one of Russia's voucher investment funds. Page 16; Editorial Comment, Page 15

Serbs accused of using banned weapons: The UN accused besieging Serbs of targeting civilian areas of Sarajevo with banned weapons in a further spiral of tension and violence in the Bosnian capital. As fighting continued, Sarajevo airport was closed after Serb forces refused to guarantee the *safety of humanitarian flights.*

Crédit Lyonnais is to restructure some of its European retail banking operations outside France to move away from personal lending and concentrate on gathering deposits. Page 17

UK Tories hit by new sex scandal: John Major's Conservative relaunch suffered a severe setback as another senior MP was forced to resign after allegations of sexual impropriety. Page 16

Clinton attacks tax cuts: The Clinton administration began its counter-attack on the first 100 days of the Republican-controlled Congress by strongly implying that the president would veto tax cuts passed by the House of Representatives last week. Page 4; Michael Prowse, Page 14

Telecoms liberalisation: Countries in eastern Europe and the former Soviet Union should increase efforts to introduce competing telecoms services as a vital element in moving to a free market economy and speeding growth, a senior executive at the European Bank for Reconstruction and Development, said. Page 2; Bank exploits 'feel-good' factor, Page 2

Transatlantic air talks renewed: US and UK negotiators meet today in a renewed attempt to agree on airport access. Page 4; Business Travel, Page 10

National Grid, operator of the power *transmission system in England and Wales,* is expected to be confirmed this week as Pakistan's choice to lead a £400m ($640m) project to build, own and maintain a 1,440km transmission line. Page 6

Taiwan seeks dialogue with China: Taiwan's president Lee Teng-hui called at the weekend for formal talks to end more than four decades of hostilities between Taipei and Beijing, but said China must first renounce the threat of force against the island it views as a renegade province. Page 6

Mussolini's daughter dies: Edda Mussolini Ciano, daughter of Italy's wartime Fascist dictator, died in Rome aged 85. Ciano, eldest of Benito Mussolini's five children, was widow of playboy count and politician Galeazzo Ciano, who was executed by her father's regime in 1944 for treason.

Overhaul urged for UK trade watchdogs: A prominent committee of British MPs is to recommend that the Office of Fair Trading and the Monopolies and Mergers Commission be overhauled. Page 16

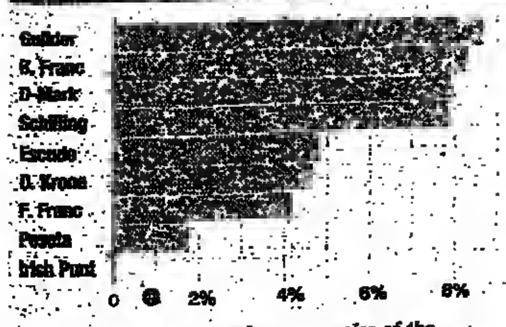
Narrow win for Iceland coalition: Iceland's ruling coalition between the conservative Independence party and the Social Democrats clung to its majority in parliament, winning a combined 32 of 63 seats an yesterday's election. Page 3

Le Pen supporters arrested: French police arrested two members of presidential candidate Jean-Marie Le Pen's National Front party for injuring a man in the latest of a string of violent electoral incidents involving tha extreme rightwing party. Balladur backer stresses patriotism, Page 3; Editorial Comment, Page 15

Liechtenstein to join EEA: Liechtenstein, the tiny Alpine principality with a population of 30,000, voted to join the 17-member European Economic Area, which links the 15-nation European Union with Iceland and Norway.

European Monetary System: Tensions in the EMS eased further last week as currencies took advantage of the breathing space offered by the recent cut in German interest rates. The main beneficiary was the Spanish peseta, which climbed above the Irish punt in the grid. The punt is suffering from its close links to *sterling, which remains* very weak. Currencies, Page 31; Lex, Page 16

EMS: Grid April 7, 1995



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

Austria	Sch35	Greece	Dr400	Malta	Lm0.60	Qatar	QR18.00
Bahrain	Dinl.250	Hong Kong	HK$18	Morocco	MDh15	S.Arabia	SR11
Belgium	BFr70	Hungary	Ft165	Neth	Fl 4.25	Singapore	S$4.30
Bulgaria	Lev109.00	Iceland	IKr220	Nigeria	Naira90	Slovak Rp	KSL60
Cyprus	C£1.10	India	Rs75	Norway	NKr18.00	S. Africa	R12.00
Czech Rp	CZK35	Israel	Shk7.90	Oman	OR1.50	Spain	Pta225
Denmark	DKr17	Italy	L3000	Pakistan	Rs40	Sweden	SKr17
Egypt	E£5.00	Japan	Y500	Philippines	Pso50	Switz	SFr3.60
Estonia	EKr 20	Jordan	JD1.50	Poland	Zl 42,000	Syria	S£50.00
Finland	FM15	Kuwait	Fils.625	Portugal (m'land)	Es230	Tunisia	Din1.500
France	FFr10.50	Lebanon	US$1.50			Turkey	L40,000
Germany	DM3.60	Lux	LFr70			UAE	Dh12.00

Japanese government humiliated in regional polls

By William Dawkins in Tokyo

Japan's ruling coalition was humiliated in local elections yesterday when a television personality and a professional comedian – both political independents – were elected governors of the two largest cities.

The polls were the first nationwide electoral test for the nine-month-old government. The result bodes ill for the coalition, dominated by the conservative Liberal Democratic party, in an election for the upper house of parliament in July and a general election widely expected within the next year.

The outcome also marks dissatisfaction with the main political opposition, the New Frontier party, an alliance of mainly former LDP politicians formed last December. That may strain unity within the main parties at a time when Japan is struggling to prevent its economic recovery from being stifled by the relentless rise of the Yen.

Mr Yukio Aoshima, 62, who made his television debut as Nasty Grandma in a 1960s soap, beat a senior former member of Japan's bureaucracy to become governor of Tokyo, one of the most powerful jobs in Japanese politics. The runner-up, Mr Nobuo Ishihara, former chief cabinet secretary, had LDP backing.

To complete the humiliation, Mr Aoshima did not even campaign, preferring to stay at home, be said, to study public administration.

Mr Aoshima wasted no time in chiding the old guard by hinting that he might scrap the Tokyo City Exposition, scheduled for next year and much criticised as an extravagance.

Osaka chose as governor a one-time television comedian, Mr Nokku "Knock" Yokoyama, 63, instead of another former bureaucrat backed both by the LDP and opposition NFP. Mr Yokoyama and Mr Aoshima resigned recently as members of the upper house to be able to compete in local elections.

Japanese political analysts saw the result as a protest against the government's handling of a recent series of disasters. It has been widely criticised for being hesitant and clumsy in handling the Kobe earthquake; the nerve gas attack on the Tokyo subway; the investigation of the shooting of Japan's most senior policeman; and the botched official rescue of two credit unions.

Business leaders greeted the outcome with anxiety. The election of Mr Aoshima in Tokyo was a "revolutioo", said Mr Takeshi Nagano, president of the Nikkeiren employers' federation, who warned of a crisis in parliamentary democracy. Mr Shoichiro Toyoda, chairman of the

Continued on Page 16

EU single currency 'unlikely before 2002'

By Lionel Barber in Versailles

The introduction of a single European currency with new coins and notes is likely to be delayed until 2002 at the earliest, according to the latest estimates by central bank governors in the European Union.

The timescale emerged during an informal weekend meeting of EU finance ministers and central bankers in Versailles that underscored the legal and practical difficulties in making the switch from national currencies.

The meeting provided the first high-level political forum for a discussion of the nuts and bolts of economic and monetary union.

It left participants with few illusions as to the technical and economic challenges entailed in making a single currency viable.

Although ministers paid lip service to the possibility of a majority of member states being ready for Emu in 1997, the consensus was that 1999 was a much more likely date for a few countries to meet the Maastricht treaty's targets for economic convergence.

A further three or four more years are expected to elapse before new Euro-coinage and notes are introduced. "Reality is sinking in," said Mr Eddie George, governor of the Bank of England.

France, the most enthusiastic supporter of a single European currency among the larger member states, hailed the meeting as a success. "The council was the political kick-off for the single currency," said Mr Edmond Alphandéry, France's economics minister.

The talks disclosed for the first time that there will be a delay of between six and 12 months between the political decision on which member states qualify for Emu membership, and the economic decision on the irrevocable locking of participating currencies and their rates of convertibility.

The delay is linked to the need to establish the future European central bank as an autonomous entity. The ECB will decide the conduct of a single monetary policy, the design of the single currency, and the minting and printing schedule.

Mr Hans Tietmeyer, Bundesbank president, conceded that the gap of six to 12 months might lead to speculative attacks on Emu currencies. But he insisted that risks would be small, provided there was sustainable economic "convergence" between members of the Emu club.

The French presidency and the European Commission put on display eight prospective Euro-coins to give an impression of their likely weight, shape and denomination. The Euro-notes are expected to divide into units of five, 10, 20, 50, 100, 200 and 500.

However, the name and design of the new coinage remains controversial.

Britain is insisting on preserving Queen Elizabeth II's head, while Germany wants a coin only it can make. Sweden is opposed to the use of nickel because of its allergic effects.

Germany also objects to the French preference for calling the

Continued on Page 16
Long road to economic and monetary union, Page 3

A Russian serviceman from the Ministry of Emergency Situations cleans up old Russian rouble notes around a bank in Grozny, the bombed out capital of Chechnya. Russia says it now controls 80 per cent of the breakaway republic Russian survey, separate section Picture: Reuter

European socket standard unplugged

Electrical appliance makers frustrate quest for cross-border harmonisation

By Andrew Baxter in London

A controversial proposal for a standard European-wide plug and socket system has been defeated after sparking strong opposition from UK and German makers of electrical accessories – and some safety experts.

Opponents of the proposal – for a small, unfused plug with two round pins – are claiming victory. They plan a fresh search for a harmonised system that would end years of frustration for consumers moving domestic appliances across borders.

But supporters of the scheme say it needs to be amended only slightly to win approval. "We're so close, it's ridiculous," said Mr Simon Hossack, the scheme's most vociferous supporter.

Europe has about 20 plug and socket systems, most of them incompatible. Several attempts since the mid 1960s have failed to find a common solution.

When Cenelec, the European electrical standard-setting committee, produced a document on the issue in 1991 called Live with the Differences, supporters of harmonisation urged the European Commission to enter the debate.

The Commission asked for a new standard to be drawn up, and Cenelec, whose 18 members include non-European Union countries such as Switzerland, produced its proposal last autumn. The standard includes a three-pin variant.

If approved, member countries would have had to drop their own standards, such as the Schuko system in Germany or the UK's three rectangular pin system, and gradually introduce new plugs and sockets.

But the scheme has fallen foul of Cenelec's weighted voting system, which means any proposal can be defeated by two large countries and one smaller one.

In the event, a Cenelec official confirmed last week, nine countries – including Germany, Britain, France, Italy and Spain – voted against; seven mainly smaller countries voted for the proposal; and two abstained.

Opponents had mounted commercial, technical and safety *objections.*

Germany's industry believes the proposed system is mechanically inferior to its present plugs and sockets, and would bave raised safety issues during a changeover period.

Turkish-Greek differences force Nato spending freeze

By Bruce Clark in London

Nato has been forced to freeze all capital projects under its military budget, and economise on current expenditure, because Turkish-Greek differences are holding up approval of spending plans for 1995.

The impasse comes as the alliance is preparing for a possible large-scale military operation to evacuate United Nations forces from Bosnia.

While disputes between the Aegean neighbours have often disrupted Nato activity in the eastern Mediterranean, this is the first time the entire alliance has been so badly affected. "People are taking this matter very seriously," said one diplomat at alliance HQ.

Ankara is understood to be holding up the whole military budget after Greece, complaining about the lack of progress towards establishing new Nato commands on its territory, vetoed the funding of alliance facilities in the Turkish port of Izmir.

Nato officials said 15 investment projects had been frozen as a result of the row.

One of them is understood to be the procurement of a new computer system.

Current spending under the military budget – which accounts for more than half Nato's total expenditure – is used for the maintenance of command structures, communications systems, pipelines and jointly owned assets such as Awacs surveillance aircraft.

For the moment, Nato officials say, current military expenditure is being maintained at roughly last year's level under a temporary financing arrangement. But under Nato rules, this will expire at the end of June.

Leading western nations are understood to have told both countries that the row is damaging Nato's credibility and could lead to serious operational problems if it is not solved soon.

Mr Willy Claes, Nato's secretary-general, who is shortly to be questioned by a Belgian court over his knowledge of a corruption scandal, postponed a trouble-shooting trip to the region last month because of ill health. He is now expected to make the journey next month.

Nato does not usually give details of its military budget, but a western diplomat said the spending which had been frozen as a direct result of the Turkish-Greek row amounted to around $560m.

Nato planners estimated late last year that putting in place an intervention force to evacuate the UN from Bosnia would cost – before the pull-out even began – about $800m.

They said this would use the military budget for a whole year.

Tense partners within Nato's brotherhood, Page 2

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NEWS: EUROPE

European Bank for Reconstruction and Development stresses trade-financing deals

Bank exploits the 'feel-good' factor

By Anthony Robinson in London

EBRD annual meeting

This year's annual meeting of the European Bank for Reconstruction and Development (EBRD) takes place in London against a background of hooming international trade and export-led economic growth throughout former communist central Europe. It has been reflected in a new-found zeal for trade-enhancing deals at the institution set up four years ago to ease the transition from communism to capitalism.

The "feel-good factor" has not yet permeated as far east as Russia, Ukraine or central Asia. But as countries like Poland and the Czech Republic, the first to swallow tha hitter medicine of economic restructuring, get back on their feet they are inspiring those further east to press ahead with their own delayed reforms and increase their penetration of foreign markets.

The annual meeting began on Saturday and ends tomorrow. At yesterday's special session on trade, senior bank officials confessed that the EBRD had been slow to realise the crucial importance of access to markets and freer trade as a vital element in the transition process.

Suranyi: Hungarian U-turn

"It has taken two years for the EBRD to get its trade policy through the board of directors," said Mr David Hexter, director for financial institutions. "The hank waa conceived as a project financing not a trade financing institution. It has taken a lot of time to overcome this prejndice and persuade the board that trade is essential to eastern europe," he added.

This importance was underlined last week hy the UN's Economic Commission for Europe which reported that last year the former communist states raised exports of goods and services by 18 per cent in dollar terms. This was double the rate of increase of imports and reduced their collective current account deficit to $3.4bn (£2.1bn) from $8.3bn in 1993 when imports were strong and exports sluggish.

Poland performed well last year, with a 24 per cent rise in exports. But Hungary remained saddled by an overvalued currency and hloated social security payments which depressed exports and sucked in imports to leave an unsustainahle $3.6hn trade deficit last year. Two months ago, however, the socialist-liberal coalition government led by Mr Gyula Horn performed a U-turn under the direction of Mr Gyorgy Suranyi, the re-instated, monetarist governor of the Hungarian National Bank and Mr Lajos Bokros, an equally tough finance minister.

The new team moved fast to cut government spending, raise taxes, devalue the forint and introduce a "crawling peg" system which will lead to an expected 28 per cent devaluation of the currency in 1995 and underpin an export-led recovery which has begun.

Higher exports were the principal factor between a double digit rise in industrial production in most central European states last year and signs of recovery in the Baltic and Balkan states.

With the World Trade Organisation forecasting an 8 per cent rise in global trade again this year the prospects for a further export-orientated boost to east European economies look good and the EBRD is belatedly pledging a stronger role in trade promoting deals of all kinds, including lobbying Brussels for freer access to the all important EU markets which now take 57 per cent of all exports from the region.

See Observer

Telecom rivalry 'vital to growth'

By Peter Marsh in London

Countries in eastern Europe and the former Soviet Union should increase efforts to introduce competing telecommunications services as a vital element in moving to a free market economy and speeding growth, Mr Clell Harral head of the telecommunications group at the European Bank for Reconstruction and Development said at the weekend.

Mr Harral said that simple privatisation of former state-run telecoms operators in these countries might not be sufficient to take advantage of modern technologies and management methods. Separately, a report by EBRD officials said multinational institutions such as the Organisation for Economic Co-operation and Development and the European Commission should step up their co-ordination of efforts to help former communist nations to develop independent telecom regulators.

According to the report just two countries – Hungary and Latvia – out of the 25 nations in eastern Europe and the former Soviet Union have set up telecoms regulators separate from government ministries to provide guidelines for new private sector operators providing telecoms services.

Mr Harral said former communist hloc countries should avoid "formulaic approaches" for privatisation and competition in telecoms. He warned that although privatisation of government-run telecoms operators offered a quick route to hringing in private aector know-how, without the introduction of competing services this might lead to countries "storing up acute commercial problems for the future while retarding general economic development today."

Countries generally considered furthest ahead in the region in terms of introducing competition to telecoms services include Hungary, Latvia, Ukraine, Estonia, the Czech Republic and Poland. All these have either privatised or are planning to privatise their main telecoms operators, or are introducing a significant element of free market competition in telecoms services. Mr Harral said a strong regulatory climate was an essential element of efforts to usher in competition.

The EBRD'a report on telecoms regulation said: "The absence of an independent regulatory authority to establish the 'rules of the game', arbitrate disputes and generally determine the public interest is a danger signal to potential investors. It has been demonstrated many times over that investors are much more comfortable with a privatisation offer [concerning a state-run telecoms operator] which involves an independent regulatory authority. . . than with an offer that features no regulation."

● *Telecommunications Regulatory Status Survey, final report, nvailable from EBRD, no charge.*

E Europe faces challenge on bank ownership

By Gillian Tett, Economics Staff

Finding experienced and honest people to run eastern Europe's emerging banks is now one of the hlggest challenges facing the financial sector there, Mr Brian Quinn, an executive director of the Bank of England, warned yesterday.

Speaking at the EBRD annual conference, Mr Quinn said the rapid change in eastern Europe made it extremely difficult for bank supervisors to judge the suitability of would-be bank owners. His comments reflect growing concern about the close ties between owners and clients in many of the new banks that have sprung up in eastern Europe – ties which may lead to imprudent lending and make it harder to detect criminal activity.

In line with the Bank of England's cautious stance, Mr Quinn refrained from pointing the finger at any particular country or banking group.

Nevertheless, he warned that the new class of entrepreneurial husinessmen could present a particular prohlem for banking supervisors, because the mixture of close political contacts and business clont created a "potent combination" for supervisors. "Banking supervisors can face powerfnl pressnre from individnals seeking to own banks," he added.

A separate indication of the prohlems that this rapid expansion was posing in terms of banking personnel came from Mr Jan Vit, vice-governor of the Czech national bank.

In the years since privatisation the number of employees in Czech banks has risen from 8,000 to 55,000, Mr Vit said. Meanwhile, a combination of inherited bad debts and imprudent lending since privatisation and other reforms means that about a third of the total loans held by Czech banks would probably have to be written off, Mr Vit noted.

Althongh there was now snfficient provision theoretically to cover these bad losses across the banking system, these bad dehts left some small individual banks exposed, he warned.

Tense partners within Nato's brotherhood

By John Barham in Ankara, Kerin Hope in Athens and Bruce Clark in London

Mr Richard Holbrooke, the US assistant secretary of State, said recently that the strategic importance of both Greece and Turkey had increased in the aftermath of the cold war. Both Athens and Ankara depict themselves as firmly committed to Nato, and Greece'a ruling Socialists have dropped any ideological objections to the alliance. Yet the two countries' mistrust of one another, and their conviction that one side's gain is the other's loss, appears to be deepening.

Mr Turan Morali, depoty director-general of Turkey's foreign ministry, said last week that Greek-Turkish disputes within Nato reflected a generally poor climate. "If the overall political context is favourable, then the process can move on," he said.

Mr Gerasimos Arsenis, the Greek defence minister, took the opportunity of a recent trip to Brussels to deplore delays in the implementation of a 1992 decision to establish Nato land and air commands at Larissa, central Greece. He is also impatient for the establishment in Salonika of a regional headquarters for Nato'a new rapid reaction force.

Turkey argues that the responsibilities of the two Larissa commands must be defined before they are put into action; while Greece says activation should should come first, and details worked out later.

"Turkey does not want Greece to play a role in Nato, and in doing so it is harming not only Greece hnt the whole of Nato," said Mr Arsenis.

Between two friendly countries, the definition of roles for the new commands would be a purely technical problem. But in this case, the issue is hard to settle without favouring one side or the other in much broader disputes.

These focus on Turkey's insistence that Greece is barred by treaties from militarising its eastern islands; and Greece's insistence on being the main co-ordinator of air traffic over the Aegean.

Mr Morali said Athens was using the 1992 decision to claim a "regional authority" to which it was not entitled.

He said Ankara regretted the disruption to Nato's activities that was being caused by the dispute. "Alliance work is being affected, we do not enjoy this," he said.

Mr Mehmet Golhan, the Turkish defence minister, signalled a toughening in Ankara's position last week, although other Turkish officials said his words had been distorted.

Mr Golhan was quoted as saying that Turkey would only approve the Salonika command if Greece renounced any aspiration to extend its territorial waters from six miles to 12, and if the first commander in Salonika was Turkish.

Turkish officials have since stressed that although territorial waters are a vital issue, they are not formally linked to the Salonika headquarters.

Mr Arsenis says the command in Salonika should be rotated between Greece, Turkey and Italy, with Greece, as host, providing the first chief. However, Athens accepted the idea of a Turkish commander in dua course, and it was expecting about 20 Turkish officers to be posted in the northern Greek city.

Turkish officials have argued for a comprehensive deal which would simultaneously settle all the issues relating to both Larissa and Salonika. Nato planners are understood to hava drafted a comprehensive package.

The Greek minister said that although he would have preferred a step-by-step approach, he was still happy to discuss the package.

Mr Willy Claes, Nato secretary general, was yesterday back on the defensive only days after vowing a corruption scandal would not bring him down, agencies report from Brussels.

Pressure for Mr Claes to resign mounted following a weekend police search of the former Belgian politician'a home over a defence contract scandal. His Nato residence in Brussels was also searched. The search came hours after parliament approved such measures in the hope of forcing a breakthrough in the scandal, which has caused four national and regional ministers to resign and been linked to a murder and a suicide.

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NEWS: EUROPE

Iceland's coalition clings on to power

By Hugh Carnegy

Iceland's ruling coalition between the conservative Independence party and the Social Democrats at the weekend clung on to its majority in the Althing, or parliament, winning a combined 32 of 63 seats.

Prime Minister David Oddsson's Independence party, in power since 1991, dropped one seat to win 25. It saw its share of the vote slip to just over 37 per cent. But it was unchallenged as the biggest party and Mr Oddsson is set to remain as prime minister.

Its partner coalition partner, the Social Democratic party, Iceland's only political party advocating membership of the European Union, emerged as the main loser in Saturday's election, dropping to seven seats from 10. The SDP's share of the vote fell from 15.5 per cent in 1991 to 11.4 per cent.

But Mr Oddsson may opt for a new partnership with the rurally-based Progressive party following the significant reverse of the Social Democrats.

The Progressive party, which like the Independence party opposes joining the EU because of Iceland's objections to the common fisheries policy, made strong gains. It won 23.3 per cent of the vote, an advance of more than four percentage points, adding two deputies to take 15 Althing seats and to consolidate its position as the second largest party.

Mr Jon Baldvin Hannibalsson, the foreign minister and SDP leader, was hoping his outspoken advocacy of EU membership would draw support to the party from young people and the business community.

He is concerned that Iceland will be left politically and economically isolated by the EU's planned expansion. But any gains from disgruntled pro-EU supporters of other parties was offset by the effects of a winter split in SDP ranks.

A breakaway party called the Awakening of the Nation set up in January swept into the Althing, winning more than seven per cent of the vote and four seats. Iceland's women-only Women's List also lost out to the new party, which is led by the popular Ms Johanna Sigurdardottir.

The Women's List lost two of its five seats. The sixth parliamentary party, the left-wing People's Alliance, held on to its nine seats.

Coalition talks are likely to take some time. Mr Oddsson said he would negotiate first with the SDP but he did not rule out other options.

Whatever the shape of the new government, the result means Iceland will almost certainly delay taking up the issue of EU membership at least until after the completion of the Intergovernmental Conference on the Union's future due to start next year.

ICELAND ELECTION RESULTS

Party	1995 vote %	1995 seats	1991 vote %	1991 seats
Independence Party (conservative)	37.1	25	38.6	26
Social Democratic Party	11.4	7	15.5	10
Opposition Progressive Party	23.3	15	18.9	13
Socialists	14.3	9	14.4	9
People's Movement (moderate left)	7.2	4	–	–
Women's Party	4.9	3	8.3	5

Source: Reuter

Balladur backer stresses patriotism

By Andrew Jack and John Ridding in Paris

Pasqua: attacked Chirac

Mr Charles Pasqua, France's powerful interior minister and a leading supporter of the presidential bid by Mr Edouard Balladur, the prime minister, yesterday stepped up the emphasis on patriotic values while intensifying his attacks against the rival Gaullist candidate, Mr Jacques Chirac.

In an interview in Journal du Dimanche, Mr Pasqua, who has been sidelined since he was criticised in a phone-tapping scandal and diplomatic row with the US over espionage in February, attacked Mr Chirac's campaign promises as "hypocritical".

He said Mr Chirac – who has pledged a series of social reforms – was making promises on issues already implemented. Mr Pasqua also criticised Mr Alain Juppé, the foreign minister and key Chirac ally, who he said was seeking in his recent attacks on the Schengen accords on borderless travel to win votes from supporters of the right-wing Mr Jean-Marie Le Pen and Mr Philippe de Villiers.

However, Mr Pasqua himself made a bid for the right-wing vote by claiming that only Mr Balladur had tried to help the French take control of their own destiny, and stressing the need for children to taught to be "truly French" at school.

With the first round of the election due later this month, the gap continued to narrow between Mr Chirac, who remains the favourite, and Mr Balladur, who was either just ahead or behind Mr Lionel Jospin, the Socialist candidate, in polls published last week.

Mr Pasqua also made reference to his and Mr Balladur's record to tackle the "exclusion" of some citizens from the mainstream of French society, a day after national demonstrations protesting against homelessness, unemployment and poverty.

Dashing all hopes of a short-cut to Emu

By Lionel Barber in Versailles

The road to economic and monetary union will be a long, hazardous and exclusive enterprise, with the single European currency likely to enter limited circulation sometime early in the next century.

This was the sobering conclusion of European Union finance ministers and central bank governors at a weekend meeting which spelt out for the first time the legal and practical difficulties of introducing a single currency.

The meeting took place in the Trianon Palace in Versailles, a reminder of France's capacity for pursuing projects on a grand scale. The atmosphere was harmonious and business-like, though any hopes of possible short-cuts to Emu sooo evaporated.

First, it is clear that 1997 – the earliest date for a move to Emu allowed under the Maastricht treaty – is not realistic. Maastricht requires a majority of the 15 member states to meet tough targets on budget deficits, exchange rate stability, inflation, interest rates and government debt. Mr Yves-Thibault de Silguy, commissioner for economic and monetary affairs, spoke encouragingly about the outlook on inflation and budget deficits; but was pointedly silent on accumulated debt where potential Emu candidates such as Belgium have obvious difficulties.

Second, the 15 heads of government will most likely decide in July 1998 which member states meet the so-called convergence criteria for Emu. But under pressure from Germany, which has the most to lose from giving up the D-Mark for a single European currency, the criteria will be interpreted strictly.

Third, the European central bank will be an autonomous entity. It will not be a carbon copy of the European Monetary Institute, the Frankfurt-based body preparing the technical work for Emu. The ECB will also need between six and 12 months before it is fully functioning.

This means a delay between the date at which the Emu members are chosen and the date at which exchange rates are fixed – a delay which dispels earlier impressions that governments would seek to steal a march on the markets by locking exchange rates without forewarning.

Mr Hans Tietmeyer, Bundesbank president, conceded that this delay could encourage market turbulence as speculators "tested" Emu currencies; but he added, with relish, that if the currencies were truly worthy of joining a currency club then they had nothing to fear.

Last, a huge amount of work is required to clarify how and when the new Euro-coins and notes are to enter general circulation. Mr de Silguy suggested that the first move must be to achieve a "critical mass", with businesses and international banks quickly adopting the planned European currency unit. But other countries, notably the UK, countered that the single currency should be "demand-led".

Whatever the case, it will take between three and four years to mint and print the new coins and notes. And then there will be the question of the name of the single currency. The French are happy to call it the Ecu, but the Germans do not like the idea because the present Ecu has been losing its value steadily against the D-Mark.

Mr Theo Waigel, German finance minister, thinks the Euro-Mark has a nice ring. Besides, it fits with his government's campaign to make German a working EU language alongside French and English.

EUROPEAN NEWS DIGEST

Liechtenstein to join trade group

Liechtenstein's voters yesterday approved revised terms of entry to the European Economic Area (EEA) as negotiated by their government over the past two years. The tiny Alpine principality wedged between Austria and Switzerland will join the free trade grouping led by the European Union on May 1. The only other non-EU members are Norway and Iceland.

Amid a high turnout, 55.9 per cent voted in favour of joining the EEA, almost the same as the 56 per cent who approved the principle in a referendum three years ago. A renegotiation and a second referendum became necessary when Switzerland, with which Liechtenstein has customs and currency unions, voted against joining the EEA. Opponents of EEA membership argued Liechtenstein was surrendering power to Brussels bureaucrats, opening the doors to a flood of immigrants and risking its status as a tax haven.

But the move, championed by Prince Hans-Adam II, won wide support within the government and the financial community. Banking and tax issues are not covered in the EEA treaty and Liechtenstein secured a special concession limiting immigration. The principality will maintain its open border with Switzerland. *Ian Rodger, Zurich*

Welfare row in Germany

The German government is bracing itself for criticism by the opposition Social Democrats following plans to reduce unemployment by cutting social welfare benefits. The proposals, unveiled late last week by Mr Horst Seehofer, the German health minister, involve reducing welfare assistance to 15 per cent below the lowest wage incomes, while those who reject work will get even less state support.

Mr Heribert Thallmair, president of the Germany's cities and municipalities association, said at the weekend the government could not push people below minimum subsistence levels.

Mr Seehofer, who has already spearheaded two health reform packages to cut government spending, said social welfare expenditure in western Germany had risen from DM17.5bn in 1983 to over DM43bn in 1993. He said ways must be found to ease the tax burden for employees and employers who contribute to unemployment payments.

■ A Berlin court is today expected to rule on whether General Electric of the US was unfairly excluded from the final round of bidding on constructing two steam turbines in eastern Germany. The appeal hearing, considered a test case by Washington, takes place days after Mr Mickey Kantor, US trade representative, and Mr Ron Brown, the US commerce secretary, wrote to Mr Günter Rexrodt, Germany's economy minister, to complain about Bonn's policy in awarding contracts. *Judy Dempsey, Berlin*

IMF backing for Ukraine

The International Monetary Fund has approved credits for Ukraine totalling about $1.96bn to support the government's 1995 economic programme. "The programme that the Ukrainian authorities have launched represents a clear break with the past, both in its commitment to rigorous financial discipline and in the implementation of substantial structural reforms," the IMF said. Of the total, about $1.57bn is being made available as a one-year stand-by credit. Another $392m is to be disbursed as a second drawing under the systemic transformation facility for former communist countries making the transition to market economies.

Ukraine's parliament last week paved the way for the loan by approving a tough 1995 budget that President Leonid Kuchma had worked out with the IMF. *Reuter, Washington*

Peace pressure on Serbia

International mediators this week will try to persuade President Slobodan Milosevic of Serbia to recognise Bosnia and Croatia in exchange for the suspension of sanctions. The envoys of the five-nation Contact Group will attempt to convince the warring parties to renew a ceasefire, which expires on April 30.

Belgrade has shown little interest in the Contact Group proposal. Mr Qian Qichen, the Chinese foreign minister, yesterday arrived in the Serbian capital on a three-day visit. Yugoslav authorities hope to gain Beijing's support for lifting the embargo, independent of recognition. China was the only country on the UN Security Council which did not vote for the sanctions imposed nearly three years ago.

Bosnian Serb leaders at the weekend threatened to launch a counter-offensive against Bosnian government troops. Fighting was reported in north-eastern Bosnia, where Serbs have gained the upper hand in a battle for a strategic communications tower. *Laura Silber, Belgrade*

Turkey begins Iraq pullout

Turkish troops have begun withdrawing from northern Iraq, three weeks after the army swept across the border in an offensive to destroy guerrilla bases of the Kurdistan Workers party (PKK). Col Dogu Silahçioglu, the army's spokesman, said about 3,000 troops moved back across the frontier into southern Turkey on Saturday but did not say when the remainder of the Turkish forces would be withdrawn. He said the contingent had left after successfully completing its mission, without giving any further clarification. *John Barham, Ankara*

NEWS: THE AMERICAS

US tax cut bill 'will be blocked'

By Jurek Martin, US Editor, in Washington

The Clinton administration began its counter-attack on the first 100 days of the Republican-controlled Congress by asserting that the tax bill passed by the House of Representatives last week has no chance of becoming law.

Vice-President Al Gore yesterday went on TV to dismiss the bill as "not right in the current fiscal climate". He accused Republicans of "being up to their old tricks again", sponsoring tax breaks for the wealthy.

Speaking in Texas and California, President Bill Clinton stated flatly that the tax cuts were "three times more than the country cao afford", strongly implying he would veto anything that emerges from the Senate of comparable scope to the $189bn (£117bn) bill cleared by the House.

Mr Newt Gingrich, the House Speaker, conceded yesterday that the Senate might change the tax bill. But he criticised Mr Clinton for defending "obsolete" government. Further Republican reform proposals on this, he said, would be unveiled next month.

The president threatened to veto a series of Republican proposals covering crime, international peace-keeping and legal reform, but also offered co-operation on issues ranging from welfare to medical care.

In Sacrameoto, Mr Clinton told a Democratic party rally that the "psychological difficulties" of "the angry white male" over affirmative action programmes, designed to help women and minorities, could not simply be ignored. "We all have to ask ourselves: Are they all working, are they all fair, has there been any kind of reverse discrimination?"

Mr Gingrich said yesterday he was opposed to "group affirmative action", hnt said he thought that "outreach" to help individuals to improve their lives was appropriate.

Mr Clinton and Mr Gore were responding to Mr Gingrich's remarkable Friday night address, given wide television coverage, in which he declared that the success of the Republican Cootract with America was but a start on the road to truly radical reform.

"All of us together – Republicans and Democrats alike – must totally remake the federal government, to change the very way it thinks, the way it does business, the way it treats its citizens," he said.

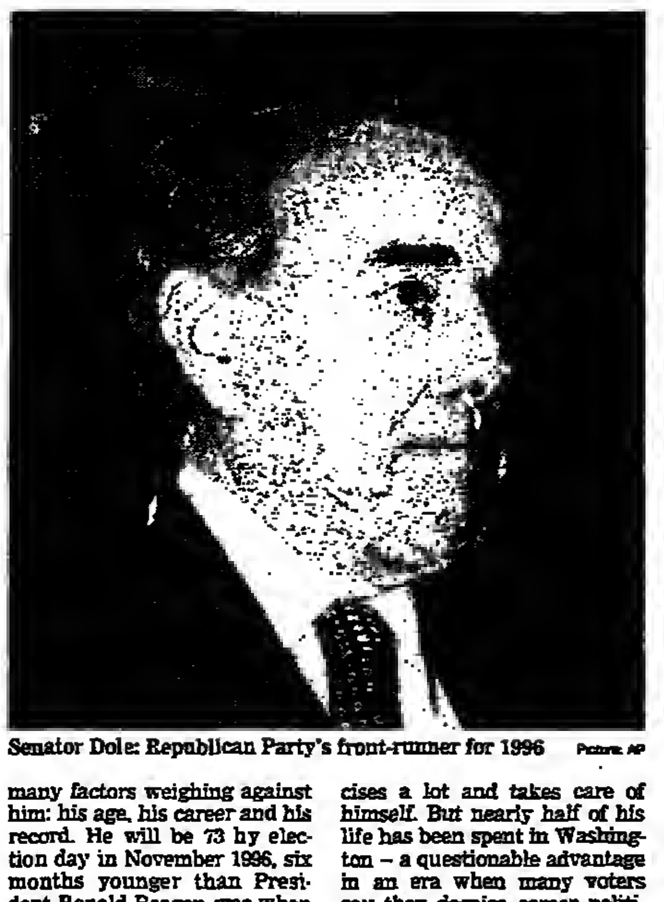
He foresaw an end to the current income tax, probably to be replaced by a flat tax, but he refuted Democratic charges that he was intent on dismantling the social safety net for the most vulnerable. Social security reform in the US was "off the table", for the time being, as was cutting back Medicare for the aged. Republicans would "never take food out of the mouths of schoolchilden" by eviscerating the school lunch programme.

Mr Clinton made clear his conviction that government could not be forced to abandon all its responsibilities. He specifically threatened to veto any attempt to repeal the ban last year on the sale of certain types of assault weapons, to weaken regulations covering pollution and food safety, and to limit the US ability to serve in UN peace-keeping missions.

He added that the "loser pays" provision in the House legal reform hill – intended to discourage frivolous law suits – was unacceptable and should be changed by the Senate. Some Republicans are having second thoughts about this measure because it may be unfair on poor plaintiffs.

Old, familiar and way out in front

George Graham went to Kansas and found Bob Dole declaring for the presidency



Senator Dole: Republican Party's front-runner for 1996 Picture: AP

Presidential candidates usually dislike heing duhhed front-runners, but Senator Bob Dole, who is to announce his candidacy for next year's Republican party presidential nomination in his home state of Kansas today, is revelling in his early lead.

"I like it. I hope it lasts," he says of opinion polls which show him ahead of rivals such as Senator Phil Gramm of Texas or Mr Lamar Alexander, a former governor of Tennessee.

Mr Gramm has a coherent, right-wing message, and a formidable fund-raising machine, while Mr Alexander has a folksy style and a strong campaign organisation drawn from among the staffs of fellow governors.

But, ten months before the first primary ballot in New Hampshire, Mr Dole, leader of the majority Republicans in the Senate, draws half or more of likely Republican voters while his rivals are hard-pushed to push their percentages above single digits.

A recent poll by the Marist Institute shows Mr Dole winning 52 per cent of a Republican primary vote (42 per cent even if General Colin Powell, popular ex-chairman of the military's joint chiefs of staff, were to run for the party's nomination) and beating President Bill Clinton in a head-to-head contest.

Mr Dole's commanding lead is surprising in the light of many factors weighing against him: his age, his career and his record. He will be 73 by election day in November 1996, six months younger than President Ronald Reagan was when he won his second term in the White House and older than any other successful candidate.

Mr Dole says he is "a very vigorous person" who exercises a lot and takes care of himself. But nearly half of his life has been spent in Washington – a questionable advantage in an era when many voters say they despise career politicians.

Besides, Mr Dole's pragmatic hrand of Republican politics has clocked up a long list of practical legislative achievements, but, in the present anti-government climate, he is forced to take aim at many of the spending programmes he once voted into existence.

Perhaps most difficult of all – Mr Dole has a real joh.

Unlike Mr Gramm, who has skipped congressional votes for the campaign trail, or Mr Alexander, who is a full-time candidate, Mr Dole must run the Senate. That is challenging at the best of times, for senators can be a recalcitrant band of prima donnas.

Also, Mr Dole is measured against the breakneck speed Speaker Newt Gingrich has been setting in pushing the Republicans' Contract with America through the House of Representatives.

The Senate's more measured pace may sit better with voters, even so. Polls show most of those questioned approve of the way in which Mr Dole and the Senate are handling their jobs, while Mr Gingrich and the House arouse widespread disapproval.

Mr Dole hopes voters will still feel the same way next year, and opt one last time for a proven leader from his second-world-war generation.

"I concluded that perhaps there was one more mission – one more call to serve," he says in campaign speeches.

But the Senate leader knows from experience that it will not be easy. He failed in his first national campaign, as President Gerald Ford's vice-presidential running mate in 1976. In 1988, he was riding high after winning the Iowa party caucuses; where members choose delegates to their nominating convention in public meetings, but fell to earth a week later when ha lost in New Hampshire'a secret ballot primaries to Vice-president George Bush.

"I was elected President of Iowa and then, eight days later, I came to New Hampshire and I was de-elected," Mr Dole quips today.

This time, Mr Dole and his campaign handlers are determined not to make the same mistakes. Campaign officials say they already have three times as many volunteers lined up in New Hampshire as they did on polling day 1988, as well as the backing of former Senator Warren Rudman.

In most other states, too, Mr Dola has endorsements from the top echelon of local Republicans.

So many states have moved their primaries forward in the calendar that the 1996 nomination campaign is expected to be won and lost much earlier than in previous years.

With an improved organisation, a large campaign warchest and his high national profile as the Senate leader, Mr Dole may just be able to cruise to the Republican party's presidential nomination before his rivals have even managed to get their names known across the nation.

Fraud bid revealed in Peru's election

By Sally Bowen in Lima

Last-minute evidence of intended electoral fraud on a substantial scale, and a request by nine of the 14 presidential candidates to postpone the voting, failed tn halt Peru's presidential and congressional elections yesterday.

Just hours before polling began, 20 people – including three officials of the national electoral board – were detained when a complex fraud plan was uncovered in the central Andean town of Huánuco. It involved the forgery of electoral returns for 3,000 voting tables – more than 500,000 ballots or some five per cent of all Peruvians expected to vote.

The nine candidates calling for postponement alleged, in a statement late on Saturday night, that the board was "in no position to guarantee that the events at Huánuco are not being repeated at other provincial electoral boards."

Mr Javier Pérez de Cuéllar, former UN secretary-general and chief rival to President Alberto Fujimori who is seeking a second term, was one of the candidates asking for a delay.

He said: "The link [of the government's electoral alliance] with the uncovered fraud is another affirmation of Mr Fujimori's obsession with getting himself re-elected at any cost."

The former diplomat, however, refused to pull out of the contest. Instead, he called on all Peruvians to be extra vigilant throughont the seven hours of voting.

The government played down the planned fraud. Mr Efraín Goldenberg, prime minister, late on Saturday expressed official "repudiation of a criminal act", but asserted there were "no reasonable indications" which implicated any political party or group in the conspiracy.

Even so, the Huánuco incident will casts a shadow over the electoral results. Mr Fujimori, according to pollsters' predictions, stands a fair chance of securing the 50 per cent of all valid votes needed for a first-round victory. Given the lingering suspicion of more extensive fraud, he will now need to clear that mark by a substantial margin if he is to disarm charges of electoral manipulation.

The Organisation of American States has a team of 70 observers in Peru for the elections. Mr César Gaviria, OAS secretary-general, refused to comment yesterday in Lima on the possibilities of further fraud, although the organisation had asserted that the "transparency and legitimacy" of the elections was "in grave danger".

Democrats peeved at Murdoch's tax break

By George Graham in Washington

Democrats in the US are not pleased by the fact that the higgest item they have managed to get through the new Congress so far is a tax hreak for Mr Rnpert Mordoch, the contrnversial Australian-born media tycoon.

HarperCollins, his publishing subsidiary, is at the huh of an ethics row over a $4.5m (£2.8m) book contract it offered Mr Newt Gingrich, now Speaker of the House of Representatives, just after the Republican victory in the Congressional elections last November.

The Murdoch-owned Fnx television network, meanwhile, is Exhibit A in the case against sex, violence and stupidity in US hroadcasting. It is also under attack from the National Association for the Advancement of Colored People, the oldest US civil rights organisation, for skirting US laws on foreign ownership of television stations and thus excluding black and other minority group owners.

Bnt Mr Murdoch's tax concession comes from a programme to help minority hroadcasters and which the NAACP has been trying to rescue. The hreak, allowing tax to be deferred on profits from the sale of a radio or televisioo statinn to a minority owner, would be eliminated by a tax bill both arms of Congress passed this week.

Viacom, another media giant, has had to call off the sale of its cable TV stations to a minority owner because the bill would block the $600m tax deferral it expected. Several smaller deals would also lose the hreak.

Bnt, at the urging of Senator Carol Moseley-Braun, an Illinois Democrat and the Senate's only hlack member, a special clause was inserted two weeks ago to save the tax deferral for Mr Murdoch's sale of an Atlanta station to a consortium led by Mr Quincy Jones, the hlack record producer.

Mr Murdoch will be allowed to defer tax on his estimated $90m capital gain. As a result, he has agreed to lower his price by $12m.

The loophole has incensed other Democrats, and a delegation visited President Bill Clinton this week urging him to veto the hill.

Mr Clinton has decided to sign the bill, however, because he does not want to delay its main measure: an extension of tax dedoctihility for health insnrance premiums paid hy the self-employed which is very popular with the small business lobby.

During more than two years in the White House, Mr Clinton has yet to veto a hill. As measures he opposes get tied to measures he supports, he is finding it as hard to veto with a Republican majority in Congress he did when the Democrats were in control.

Widespread smoking ban from today in NY

By Richard Tomkins in New York

New York City will bow today to the rising tide of anti-smoking sentiment in the US by introducing tough measures to prohibit smoking in nearly all public places except the street.

The ban embraces offices and factories, shops, restaurants, bingo parlours, sports stadiums, parks and zoos. But it excludes bars, bar areas of restaurants, and restaurants seating fewer than 35 people.

In the workplace, smoking will be allowed only in separately ventilated rooms established for smoking breaks. The self-employed will be allowed to smoke in their own workplace only if three or fewer people are present and all consent.

The controversial legislation was passed in January amid protests that it was too restrictive, went against the city's tradition of tolerance and could drive away tourists from Europe and Asia.

Some restaurant owners said they would go out of husiness if the legislation were passed, but proponents of the ban said experience in other cities showed that restaurants gained as much business from non-smokers as they lost from smokers.

In the last few years, nearly all US states have passed legislation to restrict smoking in pnhlic places, and more than 100 US cities have introduced more extensive bans.

New York city's restrictions, which build on those already imposed hy New York state, are tough hy comparison with those elsewhere. But some cities and states have banned smoking in all restaurants, and California has established a timetable for banning smoking in bars from January 1, 1997.

The impetus for the smoking restrictions in the US was provided by an Environmental Protection Agency report published at the beginning of 1993. It said second-hand smoke was responsible for 3,000 lung cancer deaths a year among US non-smokers.

This prompted legislators to seek ways to protect non-smoking employees from second-hand smoke in the workplace. But the restrictions went beyond offices and factories because nearly all public places – including restaurants, sports stadiums and zoos – are also workplaces.

New York city's smoking ban comes into effect days after the publication of figures which show that growing anti-smoking sentiment had failed to reduce cigarette consumption in the US last year. The number of cigarettes sold was 485bn, the same as the year before. The US agriculture department, which produced the data, said this was because smoking was cheaper after a price war between the hig manufacturers.

New US-UK air talks today

By Michael Skapinker in London and Laurie Morse in Chicago

Negotiators from the US and the UK are to meet in Washington today, in a renewed attempt to reach an aviation agreement.

A three-day meeting in London last month failed after the US side had unsuccessfully demanded greater access to Heathrow airport in London for US carriers. Those talks were the first since 1993, when the US walked out of negotiations after a breakdown over the Heathrow issue.

The airline industry is sharply divided over prospecls for this week's talks, which are to continue until Wednesday. Sir Colin Marshall, British Airways chairman, says he is confident of reaching an agreement.

United Airlines, the US carrier, also believes agreement is close. Mr Cyril Murphy, international affairs vice-president, says: "The talks are very far along. Only a few loose ends need to be tied up."

Others in the industry are far less optimistic, saying the US side is still divided over whether to go for a limited "mini-deal" or to press for far-reaching liheralisation of air traffic between the US and the UK.

United and BA are proponents of a mini-deal. Both have limited objectives in this week's talks. United wants to be able to fly from Chicago to Heathrow, Europe's busiest airport.

BA wants to Increase its flights from London to Philadelphia from once to twice daily. Philadelphia is an important huh for USAir, a financially straitened carrier in which BA has a 24.6 per cent stake.

United is so confident of success this week that it is preparing to start selling tickets for the route on Thursday, with flights to begin in May, summer heing the carrier's high season.

Not everyone in the US is as enthusiastic. American Airlines is expected to file today its response to United's application to the transportation department. American has opposed United being granted the Chicago-London route.

The rivalry between American and United remains strong. American and others have insisted on calling for greater access for all airlines to Heathrow, which the UK has resisted. If the US repeats that demand this week, the talks are unlikely to succeed.

Chiapas meetings to resume

By Leslie Crawford at San Cristóbal de las Casas

The Mexican government and Zapatista guerrillas were due to meet late yesterday at a remote hamlet in the southern state of Chiapas, to set an agenda for peace talks aimed at ending a peasant uprising begun in January last year.

The talks are the first attempt for a negotiated solntion since President Ernesto Zedillo ordered the arrest of Zapatista leaders in February and sent the army to recapture towns and villages which had been under guerrilla contrnl for more than a year.

The army quickly overran rebel-held territory, hut it failed to arrest the Zapatistas' leader, Sub-comandante Marcos, who retreated into the Lacandón jungle on the border of Guatemala with an estimated 15,000 supporters.

Both sides have avolded open conflict: the Zapatistas because they know they are out-gunned and out-numbered, the army because it does not want hlame for a hloodbath.

Mr Zedillo suspended the arrest warrants last month in an attempt to draw the guerrillas back to negotiations.

The Zapatistas, who call themselves after the hero of the 1910 Mexican revolution, Emiliano Zapata, have not fired a shot since the first days of the nprising and pose no serious military threat. However, they have grown in political importance by claiming to speak for the 1m Maya people in Chiapas – a poor despised community in one of Mexico's most backward states.

Life expectancy in Chiapas is 44 years, against a national average of 70; infant mortality, at 150 per 1,000 hirths, is closer to African than Latin American levels of development. Thirty per cent of the population is illiterate, and 80 per cent earn less than the minimum wage of $2 (£1.24) a day. Although Chiapas produces 55 per cent nf Mexico's electricity, twn-thirds of househnlds in the state have no access to electric power.

Mr Zedillo's government is anxious to negotiate a settlement because the Zapatista uprising has rendered Chiapas virtually ungovernahle. Conflicts between cattle ranchers and landless peasants have been intensified, communities have become pnlarised between Zapatista sympathisers and those who side with the government, and the Catholic church has reported an increase in human rights violations recently.

INTERNATIONAL PRESS REVIEW

Orange blossoms and rhyme amid falling dollar

CURRENCIES

By Lisa Bransten

Turmoil on international currency markets has been the focus of attention in Japan, as the effect was felt on the stock market there and elsewhere in the export-dependent nation. But, in the US, the stock market largely shrugged off the effects of the tumbling dollar. So did editors across the country.

Outside tbe Washington-New York-Boston "corridor", most Americans learned about the ebbing value of the dollar and the futile efforts of the governments of the US, Germany and Japan to intervene on its behalf, through national wire service stories – if at all.

The *Tampa Tribune* of western Florida was more concerned with the prospects for a bountiful citrus harvest.

The newspaper ran a short news agency article about the dollar just to the side of a full-colour picture of an orange tree heavy with fruit and blossoms.

Regional newspapers which ran locally written stories mostly looked at the negative impact the dollar's decline would have on consumers in the US.

Even in the mid-west, where many manufacturers have resorted to non-stop production to meet the global demand for goods made cheaper by the declining dollar, most local newspapers were more concerned with the prospect of higher prices on television sets and computers.

The *Columbus Dispatch* in Ohio reported that readers were not likely to feel the consequences of the weak dollar immediately. But, chided one of the paper's husiness editors, "wake up and smell the *sushi* – the farther the dollar falls, the more money you may end up losing".

The price of imports from Japan and Germany are rising and so is the cost of a trip to Europe or Asia, the article noted.

And, even if the weak dollar encourages exports to those regions, these may be offset by declining exports to countries such as Mexico and Canada, where the dollar is strengthening, it said.

Coverage by the major wire services and the national press focused on the ineffectiveness of central bank intervention in the currency markets.

National newspapers laid the blame for the weaker dollar squarely at the feet of a US administration seen as unwilling to tackle the underlying cause: the combined effects of the trade and budget deficits.

The *New York Times* was especially harsh, writing that faced with a gaping budget deficit and a gulf with other nations in goods and services "the White House remains reluctant to endorse the painful measures needed to mop up some of the surplus dollars flowing overseas".

"Power to boost dollar doubted" read the headline in Wednesday'a *Washington Post* atop a story indicating that calls by Europeans for the Federal Reserve to raise interest rates to shore up the dollar would probably turn the soft landing into hard crash.

The *Boston Herald* rang in with a story that cited economists predicting a continued free fall for the dollar given that the "US government has repeatedly shown its unwillingness to make a substantial dent in the [government] deficit".

Despite the dour mood that prevailed among the nation's business editors, the dollar's frailty did not deter the creativity of one New Jersey headline writer.

The Record in Bergen County, New Jersey, offered readers a rhyming couplet atop the paper's dollar story: "Worthless as Fallen Leaves: Dollar'a Decline Stings Japanese."

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NEWS: INTERNATIONAL

Inkatha withdraws from Assembly

By Roger Matthews in Johannesburg

South Africa's Zulu-based Inkatha Freedom Party has carried out its threat to withdraw from the process of drawing up the country's final constitution in protest at the failure of its two partners in the government of national unity to honour a pre-election agreement.

Chief Mangosuthu Buthelezi, leader of the IFP and minister of home affairs, warned last month that unless the African National Congress and the National Party agreed by April 5 to appoint international mediators to help resolve his party's demands, the IFP would pull out of the Constitutional Assembly, formed by the lower house of parliament and the senate.

"What difference does it make whether we are there or not when the ANC will not tolerate suggestions from others. It is clear that they want to write their own constitution, so let them do it," said Chief Buthelezi after a meeting of the IFP's national council in Ulundi at the weekend.

At issue is the degree of autonomy to be granted to South Africa's nine provinces in the final constitution and in particular to the IFP's home territory of KwaZulu Natal. The IFP agreed at the last moment to participate in last April's general election only after the ANC and the National Party accepted that international mediators should be appointed to help in the resolution of the dispute.

The ANC has shown little enthusiasm for international mediation and argues that the Constitutional Assembly is the proper forum for negotiations. Last week it adopted proposals for the final constitution that offered a modest devolution of power to the provinces which fell far short of IFP demands.

Mr Buthelezi reacted angrily to ANC suggestions that the IFP had not indicated which issues the party wished to be subject to mediation. He said they were defined a year ago.

Bombings cast doubt on Israeli pullout

By Eric Silver in Jerusalem

Two suicide bomb attacks, killing seven Israelis and wounding 45 others in the Gaza Strip, yesterday raised fresh doubts over whether Israel would honour the July 1 deadline for Palestinian elections and for redeployment of its forces from West Bank Arab towns and villages.

The bombings occurred on the approaches to two isolated Jewish settlements – Kfar Darom and Netzarim – south of Gaza city.

In the first attack, a blue van exploded alongside a bus carrying soldiers and settlers from the Israeli port city of Ashdod to Kfar Darom. Six passengers were killed and 40 wounded. A Palestinian witness said the burned body of the bomber was hurled 50 metres away.

Two hours later, a car detonated as a paramilitary border police jeep and a civilian car were passing near Netzarim, killing one policeman and wounding at least two others.

Israeli hospitals reported last night that 12 of the wounded were in serious condition.

Islamic Jihad, the smaller and more extreme of the two Islamist groups fighting against the Israeli-Palestinian peace process, claimed responsibility for the bus attack.

Hamas, the larger "Islamic Resistance Movement", said its unit was behind the other attack.

Both groups said the attacks were revenge for the death of a leading Hamas activist, Kamal Kheil, who died in an explosion in a Gaza city flat a week ago. Palestinian police said he blew himself up while preparing a bomb, but Hamas insisted he was killed by Israeli agents.

The Israeli prime minister, Mr Yitzhak Rabin, said after a visit to Kfar Darom that the bombings would not stop the peace negotiations.

"We will continue to fulfil our commitments," he said, "but we shall press the Palestinian Authority to prove here in Gaza that it can fight the terrorists and stop these attacks." The government would go on restricting the entry of Palestinian day-labourers to prevent similar outrages inside Israel, he added.

Other ministers urged Mr Rabin to reconsider his pledge to pull the army out of West Bank population centres by July 1 to facilitate Palestinian elections. The agriculture minister, Mr Ya'cov Tsur, demanded that Mr Yassir Arafat, the PLO leader, disarm the Islamic gunmen before Israel exposes West Bank settlers to danger.

The health minister, Mr Ephraim Sneh, a retired brigadier who served as governor of the West Bank in the 1980s, said: "We shall have to reconsider the pace of redeployment. Gaza was the experiment, but the reality on the ground did not live up to our expectations. It was not a total failure, but it does not justify a rapid duplication of the Gaza model on the West Bank."

The left-wing environment minister, Mr Yossi Sarid, called earlier this weekend for the evacuation of Netzarim, which he described as "a bone in Israel's throat." He said last night the bombings had only strengthened his conviction that the settlement, a target of repeated Palestinian attacks, should go. Other ministers sounded a warning, however, against doing anything that could be interpreted as a surrender to terrorism.

Victims of yesterday's Gaza bombings are carried on stretchers from a helicopter into hospital AP

Waiting for Iraq to come back on stream

David Gardner on oil market wariness over the anticipated end to Baghdad's embargo

Iraq's return to the oil market, when UN sanctions against President Saddam Hussein are eventually lifted, could help stabilise rather than depress oil prices in the medium-term by removing an uncertainty which is now holding prices down, according to senior Saudi Arabian oil ministry officials.

The embargo on Iraq, imposed after Mr Saddam's invasion of Kuwait in 1990, is up again for review this month. The US and UK are resisting French and Russian pressure to ease sanctions, arguing that Baghdad has still not come clean on its capacity to produce weapons of mass destruction.

Although there is little early prospect of sanctions being relaxed, the oil market's perception that Iraq will pump as much oil as it can and export at a heavy discount to recoup market share and rebuild its stock of hard currency, allied to signs that the coalition in favour of the embargo is crumbling, is already depressing prices, some analysts argue.

"You can't talk to anyone in the market who doesn't say 'When Iraq comes back . . . '", says one senior Saudi oil ministry official. "Security considerations aside, it would be better to see sanctions go, thereby removing the 'Iraqi discount' from the market," he adds.

Before the invasion of Kuwait, Iraq was producing on average 3.4m barrels of oil a day. It now pumps an estimated 600,000 b/d, spurning a UN facility allowing for the monitored export of higher quantities to pay for food and medicines.

Mr Safa Hadi Jawad Al-Habubi, Iraq's oil minister, was quoted yesterday as saying that Baghdad would pump 2m b/d as soon as sanctions are lifted. But the senior Saudi official doubts that Baghdad could get output up to beyond 1.6m b/d in the short-term, because of several factors including war damage to its transportation facilities, dilapidation and lack of maintenance of its wells and plant due to equipment shortages, and under-investment during the Iran-Iraq war in the the 1980s.

He foresees a short-lived price "spike" downwards when Iraq comes back on stream, but thereafter "there could indeed be a premium" with firmer prices once the full extent of the Iraqi oil industry's disarray becomes clear.

Conventional wisdom is that Iraqi re-entry would cause a precipitate price fall, followed by a slow recovery to just below current levels. If sanctions are stretched sufficiently far into the future, demand – especially from Asia – could rise enough to absorb the new supply, maintaining prices. One analyst suggested the Saudis, who increased their own market share at Iraq's expense to a level now over 8m b/d and ostensibly have most to lose from an Iraqi return may be may be trying to talk up the oil price. Moreover, French, Russian, Spanish, Italian and Brazilian oil companies are in line to develop potentially huge oil-fields in Iraq once sanctions are gone.

The Saudis, however, cast doubt on Mr Saddam's willingness to allow in foreign capital, seeing in his recent overtures to oil multinationals a tactical bid to widen splits in the anti-Iraq coalition. "Think of their state of desperation in the 1980s," one senior official said, when Saudi Arabia "lent" Iraq over $6bn of its own oil. "They weren't prepared to do it then," he said.

Furthermore, he added, the Ba'athist regime's history of nationalisation, adventurism, and hostility to foreigners, plus fears that Iraq might disintegrate after Mr Saddam's departure, will make foreign oil companies wary of investing even after sanctions go. "I don't think they would come up with a risk assessment allowing their boards to spend billions of dollars," the official concluded.

See Feature

INTERNATIONAL NEWS DIGEST

Beijing licences for foreign banks

China plans by the end of the year to sanction the establishment in Beijing of five branches of foreign banks, according to a report published yesterday in the Shanghai Securities newspaper. It quoted an official of the People's Bank as saying the five licences would go to large institutions from "different countries or regions". It is expected that China will award the much sought-after licences to banks from Japan, the US and Europe. The Hong Kong and Shanghai Bank is among the frontrunners. By the end of 1994, 101 foreign-funded banks, banking branches and finance companies had opened their doors in China. China recently selected 10 additional cities that would be opened to foreign financial institutions, including Beijing, Wuhan and Chengdu. *Tony Walker, Beijing*

Gunfights on Tajik border

Fierce gunfights on the Tajik-Afghan border between Tajik opposition fighters and Russian border troops have left at least 23 people dead in the past three days and brought renewed instability to the troubled region. The Tajik government yesterday appealed to the Commonwealth of Independent States and the United Nations to take emergency steps to help stabilise the situation. A UN special representative is in the Tajik capital, Dushanbe, to try to bolster a truce negotiated between the government and opposition forces last September.

The Russian border guards, who have been stationed in Tajikistan since 1992 after a bitter civil war in the former Soviet republic, warned that Tajik insurgents had crossed the border on Friday and were trying to seize power in the Badakshan region. Gen Anatoly Chechulin, commander of the Russian guards, claimed the incursion was "the beginning of well prepared wide-scale actions" by armed Islamic militants. *John Thornhill, Moscow*

Cuba-Chile ties restored

Cuba and Chile have re-established full diplomatic ties, suspended for nearly 22 years, after the 1973 military coup in Chile. The move completes a process of rapprochement since the restoration of democratic civilian rule in Chile in 1990.

The two countries had already re-opened trade and consular ties, but a return to full diplomatic relations was opposed by some sectors of Chile's political establishment. The announcement was another step forward in the Cuban government's diplomatic campaign to consolidate its links with Latin American states since the collapse of the Soviet bloc.

Cuba's Foreign Minister, Mr Roberto Robaina, said restoration of diplomatic relations with Chile should help boost bilateral trade. *Pascal Fletcher, Havana*

Algeria debt deal delayed

Algeria and its commercial bank creditors have failed to reach final agreement on rescheduling the country's $4.5bn in commercial debt, Algerian central bank officials said yesterday. Both the London Club of commercial creditors and the central bank had expected a deal to be signed at the end of a week-long meeting in Paris on Friday. Despite agreement on the general terms of a deal, however, final details have yet to ironed out. "Ninety-eight per cent of the work is done and only a few small details are left," a central bank official said. The final deal is expected to extend debt maturities due between March 1994 and December 1997 over about 15 years and include a main Algiers demand – rescheduling of most of the $1.5bn portion of the commercial debt which bankers had effectively rescheduled in 1991. *Roula Khalaf, London.*

Vice-mayor commits suicide ahead of corruption investigation

Accused Beijing official dies

By Tony Walker in Beijing

China has announced the suicide of a vice-mayor of Beijing accused of corruption. Mr Wang Baosen, one of two vice mayors, shot himself last Tuesday after being investigated for "economic irregularities".

The death of Mr Wang and the arrest earlier this year of two municipal officials have rocked the powerful Beijing city government – Beijing functions virtually as a "city state" – and fuelled speculation that other senior figures may be implicated.

The high-profile suicide also draws attention to a nationwide anti-corruption drive launched in August 1993 which has ensnared a number of officials at or below vice-minister level.

China's official Xinhua newspaper published a terse report of Mr Wang's suicide, reporting merely that "it has been learned that Wang, 60, killed himself ahead of facing an investigation into economic irregularities."

Corruption allegations have swirled about the Beijing municipal government for months. These coincided with reports of the detention of a former secretary to Mr Chen Xitong, the Beijing Communist party boss, and also of a former aide to Mr Li Qiyan, the mayor. Mr Lu Yucheng, a vice-mayor of Beijing, confirmed in an interview recently that these two men had been detained on suspicion of corruption.

Mr Wang was chairman of the Beijing planning commission and would have had knowledge of many of the large number of property development projects now under way across the city of 10m people.

His suicide recalls the arrest in February on suspicion of corruption of Mr Zhou Beifang, a senior manager of Beijing's Shougang (Capital) Iron and Steel Works which is controlled by the municipality. Mr Zhou headed Shougang's interests in Hong Kong.

The Beijing Daily reported at the weekend that the city authorities were stepping up their campaign against corruption. Some 500 cases of graft were handled last year.

UK group set for Pakistan deal

By Michael Smith

National Grid, operator of the power transmission system in England and Wales, is expected to be confirmed this week as Pakistan's choice to lead a £400m project to build, own and maintain a 1,440km transmission line.

The project to provide Pakistan with a fourth extra high-voltage circuit will help ease concerns by investors in generation plants about the country's transmission infrastructure.

The 500kV single-circuit overhead line will run from Lahore in the north to Hyderabad in the south. The project is the National Grid's biggest diversification out of the UK.

The company is expected to put together a consortium including Hazza Engineering of the US, which designed and built Pakistan's original transmission system, and NPCC, the Pakistan-owned construction company. National Grid is expected to take a stake of about 25 to 35 per cent in the joint venture.

Contractors to the project include Balfour Beatty, of the UK, which will undertake the turnkey construction role, and Reyrolle, also of the UK, which will supply power substation equipment.

The 500kV line will run via nine new or extended sub-stations. An extra 120km of 220kV double-circuit overhead line will also be built as part of the deal.

National Grid must raise the money needed for the project by the end of the year. About two-thirds of the work is to be completed by December 1997 and the rest by June 1999.

The project is part of Pakistan's multi-billion dollar efforts to modernise its electricity industry. Since implementing policies last year to encourage investment, the government says more than $12bn has been committed.

However, businessmen and some officials fear that some of the money will be withdrawn unless the transmission infrastructure is significantly improved. The government's "independent transmission policy" aims to address the problems by allowing new transmission infrastructure to be provided by the private sector on a 30-year concession basis.

International competitive tenders were called for two major packages of work. The National Grid consortium is thought to have won both packages.

The National Grid is owned by the 12 regional electricity companies in England and Wales. Executives at the regional companies are working on plans to float the Grid as a separate company on the Stock Exchange. The flotation may be effected later this year, depending on the outcome of a regulatory review of the regional companies' distribution businesses.

Taiwan calls for China talks

By Laura Tyson in Taipei

Taiwan's President Lee Teng-hui called at the weekend for formal talks to end more than four decades of hostilities between Taipei and Beijing, but said China must first renounce the threat of force against the island it views as a renegade province.

In an address on cross-strait ties, Mr Lee also issued a thinly veiled warning to authorities in Beijing to protect democracy in Hong Kong and Macao after those territories revert to Chinese rule, or risk alienating Taiwan.

"I must stress that using so-called 'Taiwan independence campaigns' or 'foreign interference' as excuses not to abandon a military solution is to ignore and distort the founding spirit and policies of the Republic of China," Mr Lee said, using Taiwan's official name.

He later said: "Maintaining economic prosperity and a free and democratic lifestyle is the aspiration of the people of Hong Kong and Macao . . . we hope mainland authorities will respond to [their] requests." He added that this aim was the "responsibility of both sides of the Taiwan strait", which analysts said implied that if Beijing mistreated the two colonies after taking them over Taipei would surely reject entering into an alliance with Beijing.

Taipei has demanded that Beijing pledge not to attack Taiwan since unilaterally dropping the threat of an offensive strike against the mainland several years ago, but this marked the first time that Taiwan has hinted it may seek a formal peace treaty. Beijing threatens to attack if Taiwan declares independence or is invaded.

However, political analysts and diplomats agreed Mr Lee proffered only a few novel themes and no concessions in a long-awaited reply to a speech in January by China's President Jiang Zemin.

Taipei has officially banned direct political and commercial contacts since General Chiang Kai-shek's Nationalist armies fled to the island after losing China's civil war in 1949. Both sides call for reunification, but support for independence is growing among Taiwanese, who have little affinity with their mainland "compatriots".

Economic ties have flourished since hostilities began to ease in the late 1980s, and arm's-length political links were established in 1992. But little progress has been made despite two years of talks.

Mr Lee's long-ruling Kuomintang (Nationalist) party may lose its parliamentary majority in elections later this year. He is also treading carefully ahead of Taiwan's first presidential elections, for which he has yet to declare his candidacy but is widely expected to run, to be held in March 1996.

"President Lee cannot afford to give anything away right now, otherwise his domestic position will be weakened, but at the same time he must reassure Beijing that the government still wants reunification," said Mr Lu Ya-li, politics professor at National Taiwan University.

Mr Lee reiterated Taipei's demand for Beijing to recognise Taiwan as a sovereign entity and stop thwarting Taiwan's attempts to join international organisations. He also restated a call for an informal meeting between himself and Mr Jiang at the annual Asia-Pacific Economic Co-operation forum. Mr Jiang in effect rejected all three requests in his January speech.

Taiwan has moved to stamp out a flourishing underground foreign exchange market in an islandwide sweep which netted 40 illegal currency trading houses writes Laura Tyson from Taipei. District prosecutors are investigating an unspecified number of individuals involved in unauthorised forex dealing but no charges have been made. "Some people pour their money into illegal financial activities and that shows our society is still bathed in speculation," said a statement released over the weekend by the justice ministry's investigation bureau. "This needs to be corrected."

Taiwan's monetary authorities have been liberalising financial markets since 1987. But a highly efficient black market has grown which avoids remaining foreign exchange controls and restrictions on trading. Authorities apparently were concerned that such activities had become rampant, with underground houses borrowing on margin to finance speculative activities. The investigation bureau said some of underground houses are cheating customers. "This seriously affects social order and causes major problems for society," the bureau said.

A worker for Prime Minister Mahathir Mohamad's party nails up a huge poster of the premier ahead of the April 24-25 polls AFP

Big state role in Bakun project

By Kieran Cooke in Kuala Lumpur

The Malaysian government has announced that state enterprises will play a leading role in development of a M$15bn (£3.6bn) hydroelectric scheme billed as South-East Asia's biggest infrastructure project.

The scheme involves building a dam – nearly twice the height of Egypt's Aswan dam – at Bakun, deep in the interior of the east Malaysian state of Sarawak. An area of tropical rain forest larger than Singapore will be cleared and flooded.

Mr Anwar Ibrahim, deputy prime minister and finance minister, said cabinet had decided the state-run Employees Provident Fund (EPF), together with Tenaga Nasional, the partially privatised electricity utility, and Hicom, a government-controlled investment company, would have a 49 per cent stake in the Bakun project. The rest would be divided between the Sarawak state government and Ekran, a publicly listed company controlled by Mr Ting Pek Khiing, a Sarawak-based entrepreneur.

Though the government initially said Bakun would be a private sector project, industry analysts say it is likely that enterprises such as EPF will be called on to invest substantial funds.

The Bakun dam, capable of generating 2,400MW, is due to be completed by the end of the century. Power from Bakun will go to peninsular Malaysia first by 670km of overhead cables and then through a 650km submarine cable.

Environmentalists and opposition politicians have raised strong objections to the Bakun project. They say Bakun is an ill conceived scheme of doubtful economic merit that could bring environmental disaster.

Dr Mahathir Mohamad, the prime minister, has said Bakun will act as a catalyst for economic growth in Malaysia and turn the country into a regional power exporter.

India urged to speed rail reforms

By Mark Nicholson in New Delhi

India must give priority to reforming its state-run rail sector to prevent the saturated transport system from hampering further economic growth, according to a World Bank study released yesterday.

The report*, entitled "The Indian Transport Sector – Long Term Issues," says India has "only begun" the task of reforming its transport infrastructure, administration and laws necessary to promote growth in its international trade.

The study notes that India has shifted decisively from being a rail-dominant economy in the 1950s to being road-dominant, with more than 60 per cent of freight and 80 per cent of passenger traffic now burdening India's inefficient and relatively dangerous roads.

With India's economy growing at rates of between 4.5 per cent and 6 per cent, the report says this implies a doubling of freight transport every 10-13 years and of passenger transport every 7-10 years. Foreign trade volumes at these growth rates would double every eight years.

However, the report says energy, environmental, public safety, land and population relocation problems conspire against fast or efficient expansion of the country's 2m km of surfaced and unsurfaced roads. These factors make railways "uniquely positioned" to relieve present transport bottlenecks, as the "least energy intensive and polluting... as well as safest and least demanding of land for expansion".

However, to relieve the state rail system of bottlenecks and to permit growth in the freight volumes necessary for growing trade, the bank outlines a series of reforms which, it concedes, would be "difficult... even in the long term".

Chief among these would be removing the "burden of redundant labour" on the rail network, which it puts at a minimum of 400,000 jobs, and eliminating high subsidies on passenger rail fares.

"The very least that can be done in the short run is to run the passenger services as a commercial venture," it says. The railways should also be depoliticised, says the report, by distancing the state service from its present "daily scrutiny" by parliament and making the service a semi-autonomous public corporation.

The report adds that the average tenure of senior managers should be raised from present terms of a year to 18 months up to 3-5 years as the "minimum" required to push through reforms.

The report also recommends increased privatisation of India's ports, airports and bus services and further deregulation of the country's road haulage operations.

But it says meeting the "huge backlog of economically justified road projects" would require financing that cannot be met just by injections of private capital, public toll roads or proposed build-operate-transfer schemes. "The only viable alternative" in this sector, says the report, would be to levy "new, earmarked" taxes on diesel and leaded petrol.

**The Indian Transport Sector – Long Term Issues, The World Bank, 1818 H St. NW. Washington DC.*

AMP SOCIETY

AUSTRALIAN MUTUAL PROVIDENT SOCIETY
ARBN 008 387 371
Incorporated in New South Wales
Members' Liability Limited

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 146th Annual General Meeting of the members of AMP Society will be held in the Ballroom of the Regent Hotel, 199 George Street, Sydney, New South Wales, Australia at 10.00am on Wednesday, 10 May 1995 to receive and consider:

(a) the report of the Directors, and
(b) the financial statements and the report of the Auditor in respect of the AMP Society and the AMP Society Group for the year ended 31 December 1994.

Proxies

A member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of the member. A proxy need not be a member.

Proxy forms must be received at the address below at least 48 hours before the meeting.

Proxy forms are available on request from the Returning Officer at the address below:

AMP Ballot Administrator
Price Waterhouse Urwick
Level 15, 201 Kent Street
SYDNEY NSW 2000
AUSTRALIA

By order of the Board
D G Robinson, Secretary
10 April 1995

AMP SOCIETY

AUSTRALIAN MUTUAL PROVIDENT SOCIETY
ARBN 008 387 371
Incorporated in New South Wales.
Members' Liability Limited

NOTICE OF GENERAL MEETING

Notice is hereby given that a General Meeting of the members of AMP Society convened by the Directors pursuant to By-law 9.1, will be held immediately following the conclusion or declaration of adjournment of the Annual General Meeting to be held at the Regent Hotel, 199 George Street, Sydney, Australia at 10.00am on Wednesday, 10 May 1995 for the purposes of considering and, if thought fit, passing the following resolutions amending the By-laws of the AMP Society:

1. By-law 33.4

To consider and, if thought fit, to pass the following resolution as a special resolution:

That By-law 33.4 of the By-laws Part 2 is amended by deleting the existing By-law and substituting:

"33.4 Voting

Subject to the Law, no Director shall vote in respect of any matter, contract or arrangement or any proposed matter, contract or arrangement in which that Director has a material personal interest, and if that Director does so vote, that vote shall not be counted. A Director shall not be counted in the quorum present at any Director's meeting at which any matter, contract or arrangement is considered in respect of which that Director is not permitted to vote."

2. By-law 63

To consider and, if thought fit, to pass the following resolution as a special resolution:

That By-law 63 of the By-laws Part 2 is amended as follows:

(1) Delete the word "Indemnities" being the title of By-law 63 and substitute "Officers: Indemnities and Insurance."
(2) Delete the existing By-law 63.1 and substitute:
"63.1 Indemnities

To the extent permitted by law:

(a) AMP indemnifies every person who is or has been an Officer of AMP against any liability for costs and expenses incurred by that person in defending any Proceedings in which judgement is given in that person's favour, or in which that person is acquitted, or in connection with an application in relation to any Proceedings in which the Court grants relief to that person under the Law; and
(b) AMP indemnifies every person who is or has been an Officer of AMP against any liability incurred by that person, as an Officer of AMP to another person (other than AMP or a related body corporate of AMP) unless the liability arises out of conduct involving a lack of good faith."

(3) Insert the following as a new By-law after By-law 63.2:
"63.3 Insurance

To the extent permitted by law, AMP may pay, or agree to pay, a premium in respect of a contract insuring a person who is or has been an Officer of AMP or of a subsidiary of AMP against a liability:

(a) incurred by the person in his or her capacity as an Officer of AMP or a subsidiary of AMP or in the course of acting in connection with the affairs of AMP or a subsidiary of AMP or otherwise arising out of the Officer's holding such office PROVIDED THAT the liability does not arise out of conduct involving a wilful breach of duty in relation to AMP or a subsidiary of AMP or a contravention of sections 232(5) or (6) of the Law; and
(b) for costs and expenses incurred by that person in defending Proceedings, whatever their outcome."

(4) Insert the following as a new By-law after new By-law 63.3:
"63.4 Interpretation

In this By-law 63:

(a) "Proceedings" means any proceedings, whether civil or criminal, being proceedings in which it is alleged that the person has done or omitted to do some act, matter or thing in his or her capacity as such an Officer of AMP or in the course of acting in connection with the affairs of AMP or, in relation to By-law 63.3(b) a subsidiary of AMP, or otherwise arising out of the Officer's holding such office (including proceedings alleging that he or she was guilty of negligence, default, breach of trust or breach of duty in relation to AMP or a subsidiary of AMP); and
(b) "Officer" means a Director, member of a local board or board of advice, secretary or executive officer of AMP."

Copy of By-laws and Explanatory Notes

A copy of the existing By-laws and a brochure containing Explanatory Notes of the proposed amendments are available by telephoning 0117 984 7401 (London Life) or 01733 473 762 (AMP UK Closed Fund).

Proxies

A Member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of the member. A proxy need not be a member. Forms must be received at the address below at least 48 hours before the meeting. Proxy forms are available on request from the Returning Officer at the address below.

AMP Ballot Administrator
Price Waterhouse Urwick
Level 15, 201 Kent Street
Sydney NSW 2000
Australia

By order of the Board
D G Robinson, Secretary
10 April 1995

AMPC 9005 LFT 3x1

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for trading on 09.04.95: Pool purchase price £/MWh	Final Prices for Trading on 12.03.95: Pool purchase price £/MWh	Pool selling price £/MWh
0030	8.10	14.94	16.37
0100	8.10	17.75	18.18
0130	8.15	26.50	27.93
0200	6.03	26.50	27.93
0230	6.03	14.94	16.37
0300	6.03	11.59	13.03
0330	6.03	11.14	12.57
0400	6.03	8.03	9.45
0430	8.14	8.12	8.16
0500	8.12	8.10	8.10
0530	8.16	6.03	7.46
0600	8.15	8.15	8.15
0630	8.16	8.16	8.15
0700	8.16	8.11	8.11
0730	8.12	8.11	8.11
0800	8.16	8.11	8.11
0830	8.16	8.10	8.10
0900	8.16	8.11	8.11
0930	11.77	6.03	7.46
1000	12.30	6.03	7.46
1030	15.39	6.03	7.46
1100	15.39	6.03	7.49
1130	15.39	6.03	7.46
1200	15.39	6.20	7.64
1230	15.39	6.42	7.86
1300	15.39	6.42	7.86
1330	15.39	6.20	7.64
1400	12.30	6.03	7.46
1430	8.90	8.15	8.16
1500	8.16	8.11	8.11
1530	8.15	8.11	8.11
1600	8.15	8.11	8.11
1630	8.16	8.11	8.11
1700	8.12	8.11	8.11
1730	8.12	8.11	8.11
1800	8.16	8.78	8.78
1830	8.16	21.22	22.66
1900	8.16	26.41	27.84
1930	8.16	26.41	27.94
2000	15.79	26.41	27.84
2030	20.57	16.38	17.81
2100	31.12	16.38	17.81
2130	31.12	10.78	12.21
2200	31.12	6.20	7.64
2230	17.00	6.12	7.56
2300	17.00	6.03	7.46
2330	8.90	8.12	8.12
2400	8.16	8.16	8.12

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.86/MWh becomes 1.686p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6789 between 8:30am and 5:15pm Monday to Friday.
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0030	8.15	8.78	8.78
0100	8.15	6.42	7.49
0130	8.78	26.50	27.57
0200	9.49	26.50	27.57
0230	9.51	6.42	7.49
0300	9.51	6.42	7.49
0330	9.51	6.42	7.49
0400	9.49	6.03	7.10
0430	9.49	8.78	8.78
0500	8.12	8.15	8.15
0530	8.87	8.16	8.16
0600	8.87	8.14	8.14
0630	8.90	8.17	8.17
0700	8.94	8.77	8.77
0730	13.16	8.03	9.10
0800	13.65	10.66	11.74
0830	16.74	10.49	11.56
0900	16.92	10.97	12.09
0930	18.78	12.21	13.36
1000	30.66	12.31	13.49
1030	30.64	12.32	13.50
1100	19.71	12.29	13.47
1130	19.60	12.28	13.46
1200	18.62	12.27	13.44
1230	18.53	12.20	13.36
1300	18.44	12.10	13.22
1330	16.70	10.86	11.97
1400	15.11	10.69	11.78
1430	13.64	10.68	11.76
1500	13.64	9.05	9.05
1530	13.63	9.00	0.00
1600	13.64	9.02	9.02
1630	17.94	10.77	11.96
1700	17.94	11.03	12.16
1730	17.94	11.06	12.21
1800	13.63	11.32	12.55
1830	13.62	16.64	18.29
1900	13.62	27.10	28.86
1930	10.36	26.64	28.52
2000	15.79	25.34	26.86
2030	22.20	10.91	12.01
2100	40.85	10.67	11.75
2130	40.85	9.86	11.03
2200	28.51	8.90	8.90
2230	13.82	8.77	8.77
2300	15.79	8.19	8.12
2330	8.94	8.15	8.15
2400	8.90	8.14	8.14

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British Coal set to sell pension funds arm

By Norma Cohen, Investments Correspondent

The defection of the entire professional team at CINVen, Europe's largest venture capital investor, may be prompted by British Coal's announcement shortly of plans to sell its pension fund management divisions as a single unit.

CIN Management, to be sold by British Coal under the terms of its privatisation, includes CINVen and a property investment team.

Officials at CINVen, Europe's largest venture capital investor, have already told British Coal and its merchant banker advisers that they wish their independence to be preserved under a sale to a new owner.

If it is not, they will consider defecting as a group and seeking bank finance to set up o competing organisation.

Mass defections will undermine the value of the rest of CIN Management and reduce the price that British Coal will receive for the sale.

Meanwhile, the UK Department of Trade and Industry has been warned in a report by its own adviser, Rothschild, that the identity of the buyer and terms of the sale "would have to be acceptable to the shareholder, the clients and the staff", according to a source familiar with the report.

The DTI sought Rothschild's advice after Samuel Montagu, advising British Coal on the sale of its non-core assets, recommended "flexibility" in structuring the sale of the fund management division.

British Coal, questioned about the sale, said: "There is nothing that we would wish to comment on at this stage." CIN Management has roughly £16bn in assets under management. CINVen has £900m, about £400m of this being the assets of three external clients: Royal Insurance, Barclays Bank and the British Rail pension scheme.

In the privatisation of British Coal, consideration was given to selling the fund management arms separately, with the suggestion that CINVen might fetch a higher price if it were sold on its own.

However, trustees to the scheme felt strongly that the fund manager should be kept as a single unit in order to ensure continuity of the above-average investment performance so far by all the divisions.

Trustees wanted to ensure a continued close relationship with the manager of the pension scheme's assets once there are no longer any contributing members, and to make certain that the present level of service and performance is maintained. CIN Management and CINVen will continue to manage the assets of former British Coal employees for as long as 50 years.

Strong trucks demand pushes up vehicle sales

By Kevin Done, Motor Industry Correspondent

UK new commercial vehicle registrations rose by 15.4 per cent year-on-year in March helped by continuing strong demand for trucks.

The overall market increased to 26,125 from 22,648 a year ago, while registrations of trucks (above 3.5 tonnes gross vehicle weight) rose by 18.3 per cent to 4,818.

In contrast to the car market, which has been undermined by weakening consumer confidence in recent months, the commercial vehicle market, a useful indicator of economic activity, remains strong in most sectors.

Sales of small vans declined modestly in March, however, and the overall pace of growth in the commercial vehicle market was slower than in the first two months of the year.

Overall new commercial vehicle registrations in the first quarter rose by 21.6 per cent to 68,822 according to figures released by the Society of Motor Manufacturers and Traders.

New registrations of trucks in the first three months jumped by 38.3 per cent year-on-year to 13,186. The increase reflects in part the low level of demand in early 1994 but also continues the trend of strong sales established in the final months of last year.

In the first quarter registrations were strong in all the main segments of the truck market. Sales of heavy three and four-axle rigid trucks, chiefly used in the construction industry, rose by 73.8 per cent to 1,514.

Registrations of heavy tractor units for articulated trucks, used in long distance road haulage, increased by 66.2 per cent to 4,861, while sales of light trucks (7.5 tonnes gross vehicle weight), used chiefly in urban distribution, have risen by 16.8 per cent to 3,245.

Daf Trucks of the Netherlands, which was rescued from the financial collapse of the former Daf group two years ago, has recovered strongly. Through Leyland Daf, its UK sales and marketing subsidiary, it has wrested back leadership of the British truck market.

In the heavy truck market Leyland Daf more than doubled its sales from a year ago, while big gains were also registererd by Scania of Sweden and Foden, the UK subsidiary of Paccar of the US.

In the van sector LDV, the Birmingham-based producer rescued by a management buy-out from the Daf collapse, has also recovered strongly and raised its sales in the first quarter by 32.2 per cent from the corresponding period a year ago.

Overall medium-duty van sales rose by 29 per cent in the first quarter.

Vauxhall, the UK subsidiary of General Motors of the US, which lacks a competitive product in the European medium-duty van market, suffered a 34 per cent drop in sales and its market share was almost halved to only 2.3 per cent.

In the light van sector Rover, the UK subsidiary of BMW of Germany, has completed its withdrawal with the ending of production of the Maestro car-derived van.

UK NEWS DIGEST

Eco-management plan for industry gets UK backing

John Gummer, the UK environment secretary, will today launch a new EU scheme to raise manufacturing industry's environmental awareness in the UK.

The eco-management and audit scheme (EMAS) will be voluntary, but companies will be encouraged to join on the grounds that it will enhance their reputatioo - and therefore their competitive position.

To qualify for registration under EMAS, a company should have a defined strategy for environmental management, along with specific objectives. Mr Gummer will say today that business should view environmental challenges as an opportunity, not a threat. Although the EU-wide scheme is aimed at industry, the UK will also be extending it to local authorities.

David Lascelles, Resources Editor

Coal plant to be wound up

A £44m ($70.4m) project which has successfully demonstrated technology to produce high grade petrol and diesel fuels from coal is to be wound up later this year. British Coal's coal liquefaction plant at Point of Ayr in north Wales will be decommissioned in June and, unless efforts to find another use in private ownership on the site are successful, it will subsequently be demolished.

A recent £1.2m cash injection from the European Commission has enabled the project, which employs 80 people, to complete the pilot plant work. However low oil prices mean that the building of a larger scale demonstration plant is unlikely in Europe in the near future. British Coal won approval to build the plant in 1984 when oil prices were high and has received funding from the commission, the government and companies including Amoco and Exxon.

Michael Smith

Insurers seek Orion probe

The Association of British Insurers has asked the government to examine the decision last October by Nationale-Nederlanden, part of ING, the Dutch financial services group, to halt its cash support for Orion, its UK insurance subsidiary. Orion subsequently went into provisional liquidation but ING went on to rescue Barings bank.

The association, which represents leading UK insurance companies, is worried that Orion was not left with sufficient capital to meet claims. It is also concerned that UK subsidiaries of overseas companies may be treated over leniently by the Department of Trade and Industry, which regulates the insurance industry. *Ralph Atkins, Insurance Correspondent*

Phone plan for consultation

Plans to introduce a national telephone numbering scheme in addition to the "phoneday" changes scheduled for next Sunday are to be the subject of broad consultation.

The plans, devised by Oftel, the telecoms watchdog which is responsible for managing Britain's stock of telephone numbers, have provoked widespread opposition from telecommunications operators and telephone users who complain of inadequate consultation.

Oftel confirmed yesterday that it was preparing a consultative document on the number scheme which is expected to be published within the next two months. It is unlikely now that the scheme will be introduced as quickly as Oftel had anticipated. From next Sunday, April 16, all national dialling codes will have a "1" added after the initial "0". Inner London numbers for example will be prefixed 0171. *Alan Cane*

Walking group presses monarch: The Ramblers' Association, the UK pressure group which represents walkers and hikers, has stepped up its fight to force the Queen to allow a public right of way by the River Thames on land at Windsor Castle. The association, which has 104,000 members, called on the Queen to allow the path to become part of the Thames Path National Trail, due to be opened next year.

Assistant director David Beskin said the path had been a public right of way until an Act of Parliament in 1860 handed it over to Queen Victoria as part of Windsor Home Park. The Crown Estate Commissioners, pleading security considerations, have refused to allow walkers on the land and offered to set up an alternative route on the opposite bank.

More criticise 'obscene' ads: Complaints about allegedly indecent advertisements increased dramatically last year, figures released yesterday show. The Advertising Standards Authority received more than 1,700 decency complaints and upheld 697. That compares to 1,297 decency complaints in 1993, of which 144 were upheld.

ASA officials say advertisers are not becoming racier in their approach – but the public are keener to make their objections known. A British Rail poster for student travel which used condoms to portray the European Union flag attracted 164 complaints.

Pay inquiry may curb directors

By William Lewis

The UK government-backed Greenbury committee which is investigating executive pay is likely to recommend that rules be introduced to prevent directors of newly privatised companies making windfall profits from share options.

The committee, headed by Sir Richard Greenbury, chairman of Marks and Spencer, is near to concluding that the price at which directors exercise options awarded to them at privatisation should be set up to two years later.

Members of the committee believe this will help prevent directors being able to make big profits on options set at the flotation price or lower.

The prime minister has said he will introduce legislation to implement the Greenbury committee's recommendations if necessary.

The new rules on share options will not affect directors of privatised utilities in sectors such as water and electricity which have already been sold off, but will affect executives of British Rail and other sectors which might be considered for privatisation.

The committee's likely recommeodation follows widespread public criticism of share option profits made by directors of privatised companies. Mr Gordon Brown, shadow chancellor, said yesterday that privatised companies should halt all further grants of share options. Yorkshire Electricity last week announced that its directors would not be given any new share options.

The Greeobury committee may also recommeod that companies be forced to seek prior shareholder approval for long-term inceotive schemes. About 22 per cent of the top 350 public companies now have such bonus schemes, which run over a number of years and pay out to directors in the form of shares only if stringent performance criteria are met.

A number of high profile public companies, such as British Gas, have decided to scrap their share option schemes, which require shareholder approval, and introduce long term incentive schemes, which do not.

Pay consultants believe that more and more public companies are likely to introduce such bonus schemes.

Sir Richard Greenbury: his committee is nearing conclusions

Accounts 'held few warnings' of failures

Only one in seven UK companies which failed between 1987 and 1994 carried a warning in its last set of accounts from its auditors about its status as a "going concern", Jim Kelly writes.

The figures add weight to the argument that anditor independence has been pnt under pressure by fierce competition between accountancy firms for fee income.

The research, by professor Professor Richard Taffler and Mr David Citron at the City University Business School, also found that the position appears to be getting worse.

An earlier survey undertaken on failures between 1977 and 1986 found that among 107 listed industrial and distribution companies which had failed, 26 per cent had carried an auditnr's qualification nn going concern.

This compares to 17 per cent among 62 comparable companies between 1987 and 1994. Among the complete sample of 125 listed and USM (Unlisted Securities Market) non-financial companies, 14 per cent carried a qualification.

More, twice as many companiea failing in the second period exhibited a high probability of failure based on systematic analysis of their last set of accounts.

Mr Citron said that auditors were under pressure to keep clients and to avoid qualifying the accounts of companies that might fail.

"But which pressure is the strongest? In many cases the auditor may be consciously, or subconsciously, under pressure to see management's point of view," he said.

European technophobia receding, survey shows

By Paul Taylor

Three-quarters of personal computer users in Britain think PCs are fun. But only one in five Germans shares the view, according to a European survey of attitudes to computing published today.

The survey, conducted by Gallup for Microsoft, the US-based software group, also reveals that if they had an extra hour in the day, 37 per cent of French personal computer users would rather use a computer than spend intimate time with a lover.

A key finding of the survey, which interviewed 2,052 people in Britain, France and Germany, is that technnphobia appears to be receding, at least as far as PCs are concerned.

Three-quarters of respondents said they were not intimidated by computers, and most believe that mastering technology can give them an edge in life.

The image of PC users as socially inept is changing. Only 24 per cent of the public feel PC users are socially lacking.

But 47 per cent of users are concerned that they still do not know enough about computers, and 43 per cent admit to having lost information on a PC in the past year.

Two out of five Europeans believe a PC in the bome is an essantial and 10 per cent intend to purchase one this year.

In Britain and Germany the PC has become the most frequently cited planned purchase, outstripping telephone answering machines, satellite television, video-tape recorders and cellular telephones.

In the workplace the PC is viewed as increasing anjoyment, productivity and success and there is a feeling that computer skills can provide an edge and lead to higher salaries in work. Forty-two per cent believe computers have made them more productive in work.

Looking ahead, 73 per cent of Europeans expect to be using video-telephony and 62 per cent expect to order food for home delivery by computer.

Fifty-four per cent of Europeans think technology will maka their lives better three years from now.

THIS WEEK

The French divide in Europe

DATELINE

Brussels: infighting is symptomatic of weaker French influence, writes Lionel Barber

One of the worst kept secrets in Brussels is that the two French EU commissioners are barely on speaking terms. Now, before the heavens open with a flood of denials, it must be said that Yves-Thibault de Silguy and Edith Cresson are among the most gifted, hard-working and charming people in town. They just do not happen to like each other.

De Silguy is the dashing chevalier with a taste for English sports jackets and silken handkerchiefs. Though prone to intellectual bullying, he possesses the high-class mind one would expect from a graduate of the Ecole Nationale d'Administration, the nursery for France's technocratic elite. As for Cresson, her combination of elegance, earthiness and political cunning explains why President Mitterrand succumbed, briefly, to the temptation of making her his prime minister.

Last October, the two rivals appeared the best of friends. De Silguy, a former adviser to Edouard Balladur, the French prime minister, had just received notice that he had won the prized economic and monetary affairs portfolio in the incoming European Commission headed by Jacques Santer. And Cresson was more than happy with her new responsibilities as commissioner for the cash-rich research and development budget. Both pledged co-operation before the French press.

Within weeks, the honeymoon was over. Egged on by their staff, the two commissioners engaged in a struggle more suited to the court of Louis XIV. A Cresson aide pledged to "emasculate" de Silguy. In retaliation, he organised a successful campaign to deprive Cresson of one of the two Commission vice-presidencies, largely ceremonial positions subject to a secret ballot of all 20 commissioners.

"It is a little French tragedy," says a mutual friend. "Both these people are highly talented, they are on top of their dossiers, but they have one weakness: they cannot live without enemies."

However, the Cresson-de Silguy tale involves more than a clash of personalities. It is symptomatic of the decline of French influence inside the European Commission following the departure of Jacques Delors, the visionary Frenchman who made an indelible mark on the institution between 1985 and 1995.

Like Charles de Gaulle, Delors had a knack of speaking for France and Europe in one breath. His project to create a European monetary union (and destroy the hegemony of the Bundesbank) stands as the most audacious example of identifying the French national interest with a wider European interest. He was able to steamroller opposition, thanks to his stamina, his intellect, and to the power base he established in Brussels as president of the Commission.

Today, the French power base is crumbling. The network of Delors loyalists, known as the Stasi, has broken up. Everyone knows that Jacques Santer of Luxembourg was Chancellor Helmut Kohl's choice, not Mitterrand's or Balladur's. Though a francophone, Santer is determined to stay neutral between Paris and Bonn and not give the French a free ride.

Inside the Commission, a new political dynamic is at work. The entry of Austria, Finland and Sweden into the EU this year has tilted the balance of power to the Anglo-German-Dutch free-trade camp, weakening the French-led "Club Med" protectionists. Just as telling was the long overdue decision to end the French language monopoly in Commission press briefings. During Delors' regime, few dared raise the lingua franca issue for fear of arousing French sensitivities; but the admission of two more English-speaking Scandinavian countries made reform inevitable. Business is also being conducted differently inside meetings of the full Commission. In his heyday, Delors controlled the agenda with an iron grip. Most commissioners went along, with the exception of the ever combative Sir Leon Brittan, the senior UK representative, and the wily Padraig Flynn, the Irish social affairs commissioner.

The Santer Commission is far less susceptible to being stampeded. Individuals such as Monika Wulf-Mathies, the German regional affairs commissioner, and Emma Bonino, the brassy fisheries commissioner, are strong-willed politicians in their own right; so, too, Franz Fischler, the Austrian farm commissioner, and Neil Kinnock, Britain's former Labour party leader. Sir Leon rejects the notion that French influence is diminishing, but concedes that "other voices are being heard".

In future, these alternative voices seem certain to grow in volume. Often, though by no means all the time, they will reflect the interests and preferences of Germany, the EU's most powerful state. The commitment to admit the former communist countries of central and eastern Europe around the turn of the century is, above all, a German-driven project, as is the idea of a "hard core" of integrationist minded states committed to political and monetary union.

The conclusion must be that Germany, rather than France, is taking the lead in sketching out the future of Europe. The French may recover their nerve and unity after their presidential election next month. But do not bet the farm.

PEOPLE

Lord Stevens looks to a richer future

The chairman of United Newspapers tells **Raymond Snoddy** that newspapers are here to stay

Lord Stevens of Ludgate, chairman of United Newspapers, has found his way on to the Internet, although he concedes it was an assisted passage. The man responsible today for Lord Beaverbrook's old Daily Express has at least looked cyberspace in the eye, even though he has not gone as far as getting himself an e-mail address.

His lordship's state of personal electronic readiness is perhaps an appropriate metaphor for United's cautious attitude to the world of electronic superhighways.

Son of the scientist Edwin Stevens, a pioneer in the development of hearing aids, the chairman of United Newspapers – soon to be renamed United News and Media – is fascinated by the communications revolution. He believes, however, that while United is happy to supply information to any superhighway, the highways should be built by someone else.

"I think we need to avoid getting too hyped up on new technology," says Stevens, who believes that printed newspapers have a considerable future, while conceding that newspaper publishers may have to cope with continuing circulation declines.

"I don't think we should get depressed about newspapers because, after all, 25 years ago everyone said newspapers would be gone by the end of the century.

"Now people are saying we can all be accessed electronically and there won't be any hard copies. I think there will be an element of that, but there will be a lot of hard copy. Newspapers will continue. They are not going to cease to exist," insists Stevens, who will be 59 next month.

Stevens took over as United chairman in 1981. Increasingly he is becoming wholly identified with the publishing group. In recent weeks he has given up two directorships – Mid-States, the automative parts supplier, and Proudfoot, the management consultancy group – and now chairs only United Newspapers, Express Newspapers and United Newspaper Publications.

During his time at United the company has changed beyond all recognition. In 1980 it was a UK regional newspaper group with pre-tax profits of £4.53m. By last year the group, whose interests now range from trade fairs in the far east to real estate advertising publications in the US, had pre-tax profits of £138m, although less than £5m came from the far east.

The main profit drivers in the business last year were advertising periodicals, which had operating profits of £38m – followed by magazines and exhibitions at £37.5m. But regional newspapers still managed to contribute profit of £30m.

The group's three national newspapers – Daily Express, Sunday Express and Daily Star – despite falling circulations in the face of the current price war, also made operating profits of £30m, a drop of £3m on the previous year.

Should Stevens not invest more in the national titles or sell them to someone who will? After all, between last August and January 1995 the Sunday Express lost 50,000 copies, falling to 1.438m.

"The national newspapers are not for sale. None of our divisions are for sale," says Stevens, adding that he would of course have to look at any serious offers that were made for the national newspapers. None has been received so far.

"We are managing our business to maximise the profits," he adds, saying he has no intention of doubling the present £20m a year spent on promotion. Instead he is looking for editorial improvements and the restructuring that modern technology and communications can offer.

For example, he wonders whether regional and national newspapers might in future be able to condense and share journalistic resources, although he does not think a seven-day paper would necessarily be a good idea.

But as the impending group name change implies, Lord Stevens is keen to get away from talk of declining circulations and give due weight to rising profits in the other areas of the business. Business magazines and exhibitions interests have been organised under the Miller Freeman brand, the aim being to dominate a growing number of industrial sectors around the world as the company already does in leather, jewellery and, increasingly, pulp paper, and offer global advertising packages.

Stevens, who likes the relatively low capital requirements and high margins of trade shows, is also hoping to make more acquisitions in the US and expand into south America, when there is less currency instability.

It is not clear what Lord Beaverbrook would have thought of all those trade fairs. But Stevens hopes they will help improve profit margins towards a consistent 15-20 per cent. He would also like to see a more even geographic spread of profits. "We would like to have a third of the profits from the States, a third from Europe and a third from the far east."

NAMES IN THE NEWS

Law-Smith takes over as chairman of oil refiner Caltex

David Law-Smith, the British accountant who has just been named chairman of Caltex, looks set to preside over a period of rapid growth at the oil refining and marketing company, writes Richard Waters.

A joint venture between Texaco and Chevron, Caltex already has annual sales of $14bn and claims an average market share of 18 per cent in the 61 countries in which it operates in Asia and Africa. Over the next five years, says Law-Smith, it will plough in another $5bn of investment, doubling its capital employed, to support growth in China, India and Indonesia.

According to Law-Smith, 55, the biggest challenge will be to make Caltex work more smoothly. He lists "people management" and "organisational structure" as two areas requiring attention. With its HQ in Dallas, half a world away from its area of operations, the company took the decision in 1988 to shift more authority to operating managers.

Now, says Law-Smith, Caltex needs to "fine-tune those changes, and give greater flexibility to people in the field." That means more emphasis on "measuring results against objectives," by looking more closely at performance measures like customer satisfaction. Oil companies have never been the greatest users of market research, he says.

Law-Smith has spent the last 18 years at Caltex in a range of financial positions, most recently chief financial officer. Picking an accountant to run the company "is a recognition that, during a period of rapid growth, strength in finance is an important ingredient," he says.

New boss for Algeria's Sonatrach

Nazim Zouioneche, the new head of Sonatrach, Algeria's state-owned oil and gas company, takes command of the helm of the country's most vital sector at a difficult time, writes Roula Khalaf.

As Algeria's military continues to battle Islamic militants in a struggle that has already cost more than 30,000 lives, the west is carefully monitoring the effect on Sonatrach, which generates more than 90 per cent of Algeria's foreign exchange revenues.

Zouioneche, a civil engineer, becomes managing director after a 24-year career with the company, having risen through its ranks, most recently as chief of staff. He has been appointed by Prime Minister Mokdad Sifi to replace Abdelhak Bouhafs, who in the past five years has presided over Sonatrach's adoption of production sharing agreements with foreign oil companies.

Since 1989 Bouhafs has signed some 30 contracts with foreign companies but negotiations for other, more significant deals – such as British Petroleum's multi-billion dollar venture to explore and develop a major gas region – have yet to be wrapped up.

With an ambitious five-year investment plan of $18bn, half expected in foreign currency, Zouioneche's main challenge will be to maintain foreign companies' interest in Algeria's oil and gas wealth in a deteriorating security climate.

Horie relinquishes LTCB presidency

The resignation of Tetsuya Horie, 63, as president of the Long Term Credit Bank of Japan (LTCB) is a blow to its reputation as one of the cleanest and most efficient of Japan's accident-prone financial institutions, writes Gerard Baker.

Horie is leaving to take responsibility for the bank's entanglements with two small financial institutions, the Tokyo Kyowa and Anzen credit unions, which were rescued by the Bank of Japan last December, having accumulated bad loans of more than Y120bn. Many of the loans were to a property company run by the president of Tokyo Kyowa, Harumori Takahashi, now under investigation for alleged fraud.

LTCB had close links with Takahashi, financing much of his expansive ambitions during the period of rapidly inflating property prices in the 1980s. In the ensuing property crash, LTCB was forced to write off bad loans of more than Y90bn.

More damaging for LTCB, several of the bank's affiliates provided funding for Tokyo Kyowa during the period of Takahashi's allegedly fraudulent activities. Horie initially denied that his bank had anything to do with the running of Tokyo Kyowa, but was later compelled to admit there had been some connections.

As president of the bank, Horie was required to fall on his sword in the traditional Japanese corporate way, but will stay on in an advisory capacity.

His successor as president will be Katsunobu Onogi, vice president of the bank.

FT GUIDE TO INSURANCE AND THE ENVIRONMENT

The costs to insurance companies of global warming and environmental clean-up are in the news. Should we be worried about their security?

Not unduly at this stage, though the rising cost of natural catastrophes in particular has led to anxiety being expressed publicly by insurers at the Berlin summit on climate change about the uncertain risks to which they are exposed. The tone goes beyond insurers' usual pessimism: Munich Re, the world's largest reinsurance company, reckons large-scale disasters are costing the insurance business 14 times as much as in the 1960s.

What about other environmental liabilities?

The cost of cleaning up polluted sites is not usually talked about by insurers in the same breath as global warming. But it is another burden they face, and their complaint is also similar: that insurance companies are being asked to act as society's financial fall guys. The big difference is that insurers can adjust the price of policies on which future weather claims will fall – but, worryingly, escalating site clean-up costs will fall on polices already sold. Last week Royal Insurance and Commercial Union, two of Britain's largest composite insurers, strongly denied a report by stockbrokers James Capel which suggested they could face "financial impairment" because of potentially huge US environmental damage claims on decades-old policies. Royal and CU disputed the basis on which the figures were calculated and said their reserves and reinsurance arrangements were more than sufficient. Yet the report highlighted the risks to insurers of US "Superfund" environmental protection legislation and adverse court rulings which are leading to claims on old polices far in excess of that envisaged at the time they were sold.

How serious are these problems?

Scare stories seem popular among insurance sector watchers. James Capel said Royal Insurance's US environmental liabilities could conceivably exceed its market capitalisation, but such a comparison is probably meaningless, if only because claims would be paid over many years. As for natural catastrophes, Andrew Dlugolecki, chief operations manager at General Accident, another composite insurer, said at a conference last week that the cost of damage to London if the Thames barrier failed in particularly adverse weather could be as much as £10bn. "I suppose it is possible that some people might go bankrupt," he said. But to reach that level the convergence of events required is perhaps as likely as London being hit by an asteroid. Thames flooding on a lesser scale is a risk insurers know they might face, and they should have taken steps to limit their exposure. What frightens insurers most is the prospect of an unexpectedly massive earthquake or wind storm somewhere in the world causing unforeseen damage and wiping out their capital.

Should policy holders be concerned?

In general, no. UK insurance companies had assets backing general non-life business of £74.6bn in 1993, the last year for which figures are available. So a £10bn bill from Thames flooding would leave a great deal to spare. Defaulting on claims is a last resort. Even Lloyd's of London, which has lost about £8bn in recent years, has paid valid claims throughout its troubles. UK insurers have incured big losses before – those which sold mortgage indemnity policies lost several billions of pounds as a result of the recession – but that has not stopped record profits. If an insurer is insolvent, Britain has a policyholders' protection fund, paid for by the industry, which meets most claims. *In extremis*, most governments would act to prevent systemic collapse of the insurance business.

What about shareholders?

If the reaction of financial markets is a guide, they should not be alarmed. Royal and CU's shares rose last week. But investors have to balance the short-term earnings outlook against the possibility of the sky falling in.

Will insurance premiums rise?

They have risen since the early 1990s and in theory should increase further, given the threats. But a worrying trend has been the influx of capital into insurance, particularly in Bermuda, attracted by the sector's recent profitability. That has put downward pressure on prices recently. In defence, insurers say they have tightened up underwriting standards: technology allows them to assess risks street by street, giving a much better idea of possible risks and the amounts of reinsurance they need. But softening premium rates suggest either that insurers do not believe their own warnings or, more likely, that the market is failing to work properly and prices are being based on past years' experience, not future expectations.

Does that mean it will be harder to buy insurance?

Yes, in some areas, if prices do not rise sufficiently. Insurers may restrict cover either by withdrawing products or tightening policy conditions. It is already happening in some areas of the Caribbean as a result of fears about wind storms. In Britain, unlimited employers' liability policies have been withdrawn. Some fear London flood insurance might be next on the list.

Ralph Atkins

FILM/VIDEO

Jumping off screen: Once Were Warriors is the first ever Maori feature

■ Movies are like buses. You wait ages for – let us say – an acclaimed movie from the antipodes and then two show up together.

Australia's *Muriel's Wedding*, hailed at Cannes last year, is a wayward, sometimes wondrous tragicomedy about two girlfriends. Muriel (Toni Collette) is plump, plain, neurotic and unpopular; Rhonda (Rachel Griffiths) is slim, social and stricken with a tragic illness. We watch their adventures with men; hear them prattle on about marriage; witness their growing awareness of the gulf between romantic dreams and suburban reality. Shot with wild colours and satiric glee, with bits of pathos on the side, it comes on at times like Edna Everage meets *Heavenly Creatures*. But debut director P J Hogan will be a talent to watch, once he has opted for one style rather than several.

□ *Once Were Warriors* is the first ever Maori feature. This, too, jumps out from the screen at us. But for suburban black comedy read slumland psychodrama, staged with feral power and panache. Disintegrating family, gang warfare, crime, violence: all the things you thought people went to New Zealand to escape. The first-time director, who will surely be back a second time, is Lee Tamahori.

■ On video we are fast entering the silly season. If you are planning a holiday, take it now and avoid the likes of *City Slickers 2* and *The Flintstones*.

Or stay to sample the two releases that do reward viewing. Richard Linklater's *Dazed And Confused* is a 1970s-set school days comedy, fresh, witty and freewheeling. Linklater is a rising star among American directors, whose follow-up film *Before Sunrise* opens in Britain next week. And Istvan Szabo's *Mephisto* (1981) is a haunting chamber epic from Hungary: the film that brought Klaus Maria Brandauer stardom as the flamboyant theatre actor selling out to the Nazis in 1930s Europe.

Nigel Andrews

MUSIC

■ It is not, strictly speaking, music, though I can well imagine excerpts from *Great Parliamentary Speeches* (EMI) being sampled and given a funky backbeat on the club circuit. This highly entertaining selection of memorable speeches from the first 16 years of parliamentary broadcasting is a notable reminder that it is not all whooping and droning in that august institution. Personal favourites include a vintage piece of sarcasm from Gerald Kaufman on "how to buy a council house"; Terry "No-one gives a toss about whether the Royal Shakespeare Company stays open or closes down" Dicks on the arts; and Alan Clark making his first ministerial speech immediately after (according to his diary) a lively claret tasting ("as I started, the sheer odiousness of the text sank in"). Great stuff.

□ *Come Together: America Salutes the Beatles* (Liberty) is yet another transatlantic tribute to the lovable moptops who seem to be enjoying another one of their booms right now. Best of a fairly insipid selection (there are few who can improve on an original Beatles arrangement) are Sammy Kershaw's affecting version of "If I Fell" and Suzy Bogguss and Chet Atkins getting together for "All My Loving".

■ Michael Nyman's *Noises, Sounds and Sweet Airs* (Argo) is a modified version of the composer's score for Karine Saporta's opera-ballet *La Princesse de Milan*, based on *The Tempest*. The style is familiar, and there is some impressively taut playing from the Ensemble Instrumental de Basse-Normandie.

□ In brief: Sir Simon Rattle and the City of Birmingham Symphony Orchestra tackle Schoenberg's First Chamber Symphony, *Erwartung* and Variations for Orchestra Op 31 on EMI; Claudio Abbado conducts the Vienna Philharmonic for the same composer's *Gurrelieder* on Deutsche Grammophon (soloists include Siegfried Jerusalem and Sharon Sweet); Bernard Haitink and the Berlin Philharmonic pair Mahler's Seventh Symphony with the *adagio* movement from the same composer's Tenth Symphony on Philips.

Peter Aspden

Entering into a new dimension

Robert Taylor offers a question-and-answer guide to European works councils and what they mean for employers and workers

By the beginning of the next century around 1,500 of Europe's transnational corporations will have consultative works councils or employee consultation procedures covering an estimated 6m workers.

This is due to the passage of the European Union works council directive last September that is the most substantial industrial relations measure agreed to by member states. The UK has opted out of its provisions which come under the social chapter of the 1991 Maastricht treaty but most British transnationals are expected to fall into line over the next few years.

The proposed European works council is not an attempt to impose *the famed German* corporate model on the rest of European industry. It aims to provide all employees in large companies which have transnational business interests in Europe with information and consultation on corporate strategies.

Many employers dislike the directive intensely. They believe it

is too inflexible, will impose an unnecessary burden on business, could undermine their own existing consultation systems and do nothing to improve competitiveness. Some fear trade unions will try to use the measure to restore their lost power and *influence by pushing for European* company-wide collective bargaining. By contrast, the European trade unions are enthusiastic about the directive. They welcome the opportunity for employees to gain an influential representative workplace voice over the making of corporate policy. Undoubtedly some also believe the European works councils will encourage a growth in trade union membership and certainly improve the "social dialogue" in transnational companies. It could be – some argue – the start of a European industrial relations system.

Both sides are exaggerating its immediate impact but the directive is going to have a wider significance, perhaps through the evolution of European Union company law. Its authors in the European Commission regard the measure as an important part of a necessary social dimension to the single integrated market. They also believe it provides a useful means for employees to achieve some reassurance in the face of global change by requiring their transnational employers to inform and consult them.

■ What kind of companies does this directive cover?
It applies to all companies and their subsidiaries – described in the directive as "community-scale undertakings" – which employ at least 1,000 workers across the 14 European Union member states (except the UK) as well as the three other countries of the European Economic Area – Norway, Liechtenstein and Iceland – with at least 150 workers in the establishments in each of at least two of these states. Swiss companies are not covered by the directive.

It excludes companies that operate wholly or almost wholly in one European Union country.

The directive *also* applies to enterprises whose headquarters lie outside the EU such as those which are US or Japanese owned if they meet the workforce size criteria in the directive. If the company's central management is located outside the EU, a "representative agent" must be appointed from among the company's operations in the EU states. If a company fails to do this, the undertaking with the largest number of employees will be assumed to be the representative of the central management.

■ How many companies will be covered by the directive?
There is no agreement on the exact number but around 1,500 corporate groups can be expected to fall within the terms of the directive. It is estimated there are 50 known *European works councils already* in operation, mostly in German and French companies.

■ What are the companies covered by the directive obliged to do by law?
They have to hold negotiations with a "special negotiating body" (SNB) on creating either a works council or an information and consultation procedure if the central management of the company decides to do so or if the company is asked to do so by at least 100 workers (or their representatives) in at least two of the states affected by the directive.

■ What is the special negotiating body and what does it do?
It is a committee made up of between three and 17 elected or appointed employee representatives from the various parts of the company in the member states. How they are elected or appointed will be determined according to the laws and practices of the different member states. The SNB is there to negotiate an information and consultation procedure with management or a works council. The SNB may decide not to proceed with negotiations by a two thirds majority.

■ What is contained in a voluntary agreement?
The agreement must say what undertakings are covered by its provisions, the composition of the works council, allocation of seats and term of office, the venue, frequency and duration of its meetings, the financial and material resources to be allocated to the works council, the duration of the agreement and the procedure for its renegotiation. The article also says the information available to employee representatives should "relate in particular to transnational questions which significantly affect workers' interests".

■ What if no voluntary agreement can be reached?
If a company refuses to commence negotiations within six months or if negotiations fail after three years from the first request, then the "subsidiary requirements" contained in the directive's annex will apply.

■ What are the subsidiary requirements of the new body?
These are that the proposed European works council must have three to 30 members who are employees of the company elected or appointed in line with national law and practice. If the works council is a large one, a three-strong "select" committee may also be created. The works council has the right to have an annual meeting with central management to receive a report from the company.

The works council is not a bargaining body. It is limited to the provision of information and consultation on matters affecting the undertaking in at least two member states such as production, sales, "the situation and probable trend of employment", investments, "substantial changes involving organisation", "introduction of new working methods or production processes", transfers of production, "cutbacks or closures of undertakings, establishments or important parts thereof" and

collective redundancies.

The works council can also meet in the event of "exceptional circumstances affecting the employees interests to a considerable extent" such as over plant relocations, the closure of establishments or undertakings or collective redundancies.

■ *Must the voluntary agreements reflect the subsidiary requirements?*
No. Those concluded before the directive is fully transposed simultaneously into national law on September 22 1996 and those reached through negotiations may take whatever form the parties to the *agreement want. However,* under article 13 agreements reached before September 22 1996 provide for "the transnational information

and consultation of employees" and cover the entire workforce and are protected as acquired rights.

Trade unions are encouraging companies to negotiate now rather than wait until after 22 September 1996. So far there are three in Britain – BP Oil Europe, United Biscuits and Coats Viyella. Many more are expected to follow this year.

■ Why should companies want to negotiate voluntary agreements now?
There are clear advantages for them in doing so. They can avoid the lengthy procedures contained in the directive because there is no need to set up a special negotiating body. To start negotiations a company needs to either contact the unions nationally or through a European branch federation or approach their own employees. Moreover, the contents of the agreement are whatever the parties accept.

■ Can the voluntary agreements reached before September 22 1996 be legally challenged after that date?
It is probable that some are likely to be tested in the courts if it is *unclear whether the employees* have genuinely agreed to what has been decided through authentic employee representatives. This could apply to the recent consultation agreements reached at the non-union companies – Marks and Spencer and Honda.

After September 22 1996 it will be possible for the SNB at a company to seek negotiations over creating a European works council even if another body exists by that time which the employer claims is a legitimate consultative and information body. Much will depend on how each member state decides to implement the directive in their own law.

The SNB is entitled to challenge an agreement in the domestic courts of the country where the company has the largest number of employees. However, in the case of UK companies the legal action would be in the courts of the country with the second largest number of workers employed by the company because of the UK opt-out.

■ How do trade unions fit in?
Trade unions are not mentioned by name at all in the directive but the term "employee representative" is. This is in line with mainland European practice where employee representation is not limited to just trade union members. Article three of the directive defines "employee representative" as those "provided for by national law and\or practice".

Membership of the special negotiating body is not restricted to company employees and it is likely both full-time union officials and lay union representatives may also assist the body through a role as "experts".

A works council established under subsidiary requirements cannot include full-time union officials, only company employees. They can be helped by "experts" though member states may limit company funding to cover one expert.

■ Are UK companies exempt from the directive?
It is true the UK government's "opt-out" from the social chapter of the Maastricht treaty means UK employers do not need to implement the directive's provisions for their British employees. But the TUC has identified 109 UK-based companies who will have to comply with the directive, at least so far as their mainland European workforce is concerned. John Monks, the TUC's general secretary, believes the opt-out has "proved to be a futile gesture to Conservative dogma".

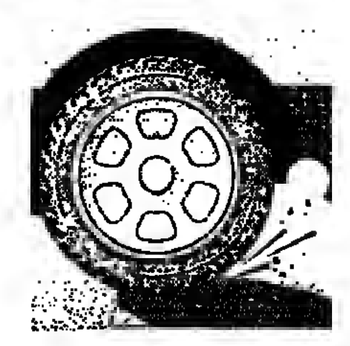
■ What about foreign-owned companies with plants in the UK?
They do not have to include their UK workers in a European works council but none so far has done so and it seems unlikely many will. There are hundreds of British subsidiaries of European companies which will be included in the works councils they have to establish under the law. It also seems probable that the 25 Japanese transnationals in the UK will soon be establishing works councils in the UK along with the US-owned companies.

■ What will happen to the directive in the UK if the Labour party wins the next general election?
The UK will opt into the social chapter of the Maastricht treaty and comply fully with the directive. It also seems likely a Labour government would introduce the legal right of employees to have workplace representation.

"Strong union organisation, combined with a coherent package of legal rights for workers in Britain will benefit not only the British workforce but with effective European co-ordination, strengthen the trade union movement right across European scale multinationals," says Monks.

■ Who will finance the running of the works councils or consultation and information procedures?
The companies will meet the full cost of operating expenses, including organising meetings, travelling expenses and accommodation as well as translation facilities. The directive's annex states: "The central management concerned shall provide members of the works council with such financial and material resources as enable them to perform their duties in an appropriate manner."

A detailed and up-to-date study can be found in European Works Councils: Planning for the Directive. From Industrial Relations Services and the Industrial Relations Research Unit at Warwick University. Price £80.



FAST TRACK

Rare

A secluded farmhouse in rural Warwickshire might seem an unlikely setting for a thriving technology business. But the Twycross-based Rare has carved out an international reputation as one of the most successful independent software developers in the video games business.

Rare is responsible for Donkey Kong Country, one of the fastest-selling games in the history of the industry. This game, which features Donkey and Diddy Kongs' efforts to recover bananas from the Nasty Kremlings, has netted around £300m since its launch, five weeks before Christmas.

Loosely based on a 1980s character designed by Nintendo's original games creator Shigeru Miyamoto, Donkey Kong Country is one of nearly 100 games that Rare has designed over the last 10 years, including other best-sellers such as *Battletoads*.

The business, which now employs 80 artists, programmers and designers, was started 12 years ago by three brothers and a couple of friends out to develop games software for the Sinclair Spectrum. Despite an early success, problems with software piracy persuaded them to switch their efforts to producing software for the cartridge-based systems that were being introduced by Nintendo in Japan.

But Nintendo, which keeps strict controls over its software, refused to release the specifications that would allow them to develop games. Undeterred, Chris Stamper devoted six months to "reverse engineer" the Nintendo console with the goal of producing a demonstration game. The result was that Rare become the first western company licensed to produce software for Nintendo consoles.

Rare has recently scored another first with Nintendo. Its new game Killer Instinct is the first to be produced for Nintendo's next-generation 64-bit consoles. The game is due to be released for the home market later this year, but a version recently released in games arcades has already proved an instant hit.

Rare believes that the arrival of the more powerful 64-bit consoles will add further momentum to the video games market by allowing it to create faster, more realistic, more exciting games. "There is a whole new world waiting to be explored," says Tim Stamper.

Rare, which has nearly doubled its workforce over the last year, is expanding rapidly, although earnings are volatile. Its last published accounts showed pre-tax profits of £390,000 for the year to October 1992. Revenues from a hit product, such as Donkey Kong *Country, could earn royalties of* $15m-$20m.

It is keen to explore ways to develop the business, through strategic alliances or by moving into marketing and distribution by becoming a software publisher. That said, the Stamper brothers' interests clearly lie with their product, rather than the management challenges of taking the business into a bigger league.

Maintaining Rare's record of innovation and keeping up with the fickle tastes of adolescent games junkies is a daunting task. But the company is convinced that it can sustain its success. "The more successful we become, the more people view this as a business of the future," says Chris Stamper.

Vanessa Houlder

The wrong time for right-spacing

LUCY KELLAWAY

You've heard about right-sizing. Now get your mind around right-spacing. Right-sizing is when your employer takes away your job; right-spacing seems to involve them taking away your desk.

I first came across the term last week when I was talking to a management consultant friend at Coopers & Lybrand. Every morning he gets into his right-spaced office above Charing Cross station. He goes to his cupboard, takes out his PC, his files, his photo of his wife and kids, and hugs them across the room until he finds a spare desk. Every night he clears them away again. Soon his space will become even righter: he will no longer have his own cupboard but will have to share it, and his desk will be allocated by computer according to a "pro-active space booking system".

He does not like right space. He calls it tight space. Yet it is not hard to see why the firm is so pleased with it: space costs have been reduced by a third. Coopers & Lybrand is not alone to have discovered this; Arthur Andersen has completed a similar pilot scheme.

Both firms recognise that some people might not instantly take to the idea of musical desks, and have done their best to explain to employees that right space makes economic sense. They have also assured them that any savings will be reinvested in the staff, rather than going straight into the partners' pockets. Coopers and Andersen both claim that the response from employees has been enthusiastic (my friend apparently being a stubborn exception).

Still, I dread the day when the Financial Times decides it is time to right space. I don't care whether the savings pay for better computers or for costly training courses. I like my desk, and the muddle around it is one of the few things at work that can be relied on. Workers in the 1990s are endlessly told that they do not have jobs for life, but in order to cope with the new insecurity it would be nice to be able to take your desk for granted, at least from one day to the next.

On my way into work in the mornings I pass a spanking new marble and glass office building which always has an assortment of employees loitering outside. Some are gossiping, some are reading reports or talking on mobile phones, others are just standing there looking shifty. All are smoking.

Office planners seem to have overlooked this unfortunate side-effect of the no-smoking building. While it may be good to get smokers out of the office, having them lingering on the doorstep while they have a quick gasper does not look good. Just as parents may be put off a school if there is a gang of children having an illicit smoke outside the gates, so clients may not appreciate a dash through the fumes to the smoke-free marble atrium. Creating a smokers room inside is surely the answer . . . that is, if an extra room could be found in the right-spaced organisation.

Delayering, streamlining, introducing performance pay, giving people more control over their careers, improving training, providing outplacement services. Last week's report *on the armed forces looked* so predictable that I could almost have written it myself. Yet on closer inspection it turned out to be quite different from the standard management model for bringing organisations into the modern age. It recommends that delayering should start not at the middle but at the very top. Surely civilian organisations could learn from this. Companies have discovered that they can do perfectly well without those hundreds of thousands of hard-working middle managers, so now might be the time to pitch their sights higher. Given the present level of dissatisfaction with senior management, the simplest thing to do would be to eliminate the top rank altogether.

A private hate of mine in the arcane world of management theory is the use of the flow chart. These consist of a series of bubbles containing such words as "values", "consensus-*based decisions*", "*people and* skills", linked together by a confusing system of arrows. They have become so prevalent that no self-respecting management guru would dream of presenting an idea without one. They evidently feel that a flow chart lends scientific respectability to what otherwise might seem at best a pretty subjective kind of a subject.

Yet I am now more tolerant of flow charts having met something infinitely worse: the pseudo mathematical formula. The Gallup Organisation sent me this the other day: T*(R+E+R)=P3, where T=talent, R=relationships, E=expectations, R=recognition and P3=peak per person. As far as I could make out, this equation is meant to help companies hire the right person. What a load of nonsense. Or putting it more clearly, F+M=P*R, where F=formula, M=management, P=pretentious and R=rubbish.

BUSINESS TRAVEL

Air strikes

Staff at France's Air Inter went on strike yesterday, forcing cancellation of about a third of flights. Half of today's services could be hit. The dispute centres on the airline's planned merger with Air France by 1997. Workers at Russia's state airline, Aeroflot, called off a one-day strike but said further stoppages might occur. And pilots at Aerolineas Argentinas are due to strike for 24 hours tomorrow, affecting domestic and international flights.

Greek drama

Do not attempt to offset travel expenses by smuggling antiquities out of Greece, **cautions Michael Thompson-Noel.** The penalty could be shocking. A former Greek deputy police chief was cleared last week of antiquities smuggling. But eight men on trial with him were found guilty, and each was sentenced to between 16 and 18 years in prison. They had been charged with acquiring objects from illegal excavations and attempting to sell artefacts dating from the 5th to the 1st century BC, including a marble lion head. The case came to light when police arrested a gang which had hoped to ship 281 artefacts to Munich.

Passenger numbers up

Chicago O'Hare held its title as the world's busiest airport last year. Preliminary figures put O'Hare at number one for passengers with 66.4m last year, up 2.1 per cent on 1993. O'Hare also had most flights, a 2.7 per cent gain to 882,112. The world's busiest 10 airports last year were said to be: 1, O'Hare; 2, Atlanta, 54.1m passengers; 3, Dallas Fort Worth, 52.6m; 4, London Heathrow, 51.7m; 5, Los Angeles, 51.1m; 6, Frankfurt, 35.1m; 7, San Francisco, 34.6m; 8, Denver, 33.1m; 9, Miami, 30.2m; 10, New York Kennedy, 28.8m.

China drought

Visitors to Beijing need not pack umbrellas. The Chinese capital is enduring its fourth consecutive year of drought and suffering its most serious water shortage in a century, the official China Daily reports. Beijing received just one inch of rain from last September to the end of last month (29 per cent of the average for the period), the report said. Liu Hangui, director of the capital's flood control and drought relief HQ, said there was enough drinking water for residents. But more than half the people living in dry mountainous areas faced difficulties. Outside Beijing, more than 300 new wells have been dug.

Qantas talks stall

Talks between Australia and Hong Kong have broken down over Qantas Airways' lucrative rights to carry intra-Asian traffic from Hong Kong. Hong Kong complains that Qantas gains excessively from its right to pick up passengers in Hong Kong for destinations other than Australia. Further talks and brinkmanship are expected as the April 29 expiry of Qantas' Hong Kong operating permit nears.

Whereas Qantas has flights between Hong Kong, Bangkok and Singapore, Cathay Pacific has no such rights in Australia. But Cathay gains much Australian traffic by carrying Australian passengers to Europe via Hong Kong.

● British Airways will re-introduce flights to Colombo, Sri Lanka, in October. The airline says a new twice-weekly Boeing 747 service will operate to Colombo from Britain, with a stopover in Abu Dhabi.

● Thai Airways aims to increase daily flights to Frankfurt from Bangkok to four by about the end of this year. The airline has one service a day at present, but is seeking three more next winter.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	18	[illegible]	[illegible]	[illegible]	17
Hong Kong	26	28	27	27	25
London	15	[illegible]	18	17	15
Frankfurt	11	14	16	14	14
New York	[illegible]	[illegible]	[illegible]	17	[illegible]
L Angeles	22	24	22	21	21
Milan	17	[illegible]	[illegible]	[illegible]	[illegible]
Paris	14	15	18	16	14
Madrid	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Maximum temperatures in Celsius

Information supplied by Meteo Consult of the Netherlands

Aces higher at Schiphol

Michael Skapinker bypasses the shops and finds other ways to pass the time before his flight

Chipping in: travellers passing through Schiphol can bet their shirts before catching their flights

It is lunchtime at Amsterdam's Schiphol airport, and the roulette and blackjack tables are doing a brisk trade. Flight announcements are drowned out by a clatter of coins as someone scores lucky on a fruit machine.

Schiphol last week became the first airport to open a casino. It already has a virtual-reality golf course and is thinking of building a cinema. The aim is to make life more bearable for those waiting to catch a flight. Because it is in the Netherlands, Schiphol has a small home market. It owes its position as one of Europe's leading airports to its skill in attracting transit passengers.

Last year 40 per cent of the 23.6m passengers who passed through Schiphol were in transit. By 2015, Schiphol hopes to be processing 40m air passengers a year, and a further 5m who will use the high-speed rail networks from all over continental Europe which connect with the airport.

There are two factors which will influence a decision on which airport to use as a stopping-off point. The first is: how easily can I get a flight to my final destination? The second: how grim was it the last time I stopped at that airport?

Airports can be depressing places to pass the hours between flights. Many offer shops as an inducement to transit passengers, and as an important source of revenue.

But Schiphol's shopping is not its strong point. Unlike London's Heathrow or Gatwick airports, Schiphol does not have any well-known stores, preferring functional outlets with generic names such as Ladies' Fashions, or Radio and Television. Schiphol says this makes it easier for customers to find what they want – but admits that it cannot think of many internationally known Dutch retailers anyway.

The casino, on the other hand, sets Schiphol apart from larger competitors such as Heathrow and Frankfurt, although the Amsterdam airport believes competitors will eventually open their own gambling operations.

Run by Holland Casinos, the Netherlands' sole licensed operator, the Schiphol casino hopes to attract 350 gamblers a day. Its first few days indicate it will have little difficulty meeting this target. Gerald Pitscheider, one of the floor managers, says he has already seen one customer betting up to $1,500 (£938) on each spin of the roulette wheel.

The Schiphol casino is for transit and departing passengers only. No one is allowed in without a boarding card. There is no dress code; the casino accepts that some people travel in trainers and shorts.

Other casinos in the Netherlands open at lunchtime and close in the early hours. Schiphol's casino opens its doors at 7am and closes at 9pm.

The slot machines offer smaller prizes than their counterparts in other casinos but make payouts more frequently, recognising that customers here have flights to catch and cannot play to the end of time.

Departures are broadcast in the casino, and unlike any other casino Pitscheider knows of, the Schiphol establishment has a clock. Most gambling dens try to make customers forget the time; at Schiphol the casino has to make sure passengers do not miss their flights.

Transit passengers who do not enjoy gambling can play 18 holes of golf at the airport. Players tee off against a screen, which carries a picture of a fairway on a real golf course. The ball hits the screen with a thud, but can then be seen, on-screen, sailing through the air to land where it *would* have landed had you been playing for real. The final putt is into a real hole in front of the screen.

Schiphol has said its transit passengers have expressed interest in a cinema. There are also plans for a Schiphol television service, with news and sports events.

For those not tempted by golf or gambling, there are large wicker chairs outside the casino. They have large canopies, allowing privacy, although the seats are probably too uncomfortable to sit on for long.

Failing that, transit passengers can wander around. Schiphol has only one terminal, and unlike many other airports, it has eschewed a dark, cave-like effect in favour of a bright design with plenty of windows. It is easy to get lost, however, as sign-posting is poor. The uninitiated must hope they do not end up at the roulette wheel or, blackjack cards in front of them, wondering if they should stick at 13.

Burst of sunshine in a Madrid house

AN HOUR TO SPARE

You should take an invigorating draught of Mediterranean air and sunshine at the Museo Sorolla. Museums in artists' houses tend to be miserable affairs: sparse furnishings and lifeless memorabilia with a scratching of minor works.

But not the house and studio of the Valencian "Impressionist" Joaquín Sorolla, an artist who is shamefully little regarded outside Spain. With an indulgent imagination, its interiors might almost be as he left them.

The Museo Sorolla is off the Paseo de la Castellana at Paseo General Martinez Campos 27, where his studio is one of the few preserved in its original state, and some representative paintings and oil sketches – the greater part of the family's private collection – are on the walls.

Sorolla's gift was an astonishing facility for infusing his works with sunlight: most particularly, the bright hot sun of his native Valencian coast. A fisherwoman shields her eyes as the late afternoon sun darkens the sand and sea around her; filtered light abstracts the gowns of the monumental bathers of *The Pink Robe*. Sorolla's bravura technique is broad, his carefully restricted palette harmonious.

Family portraits, such as the grand-manner study of his wife seated on a yellow sofa, are painted with great fluency and panache. Only the faces and hands of the mother and her newborn emerge out of a sea of white linen and whitewash, delicately dappled in the myriad colours of diffused sunlight. It may not be great or profound art, but it is brilliant.

Susan Moore

Warsaw goes underground

Professor Jan Podoski has devoted much of his life to building a metro under Warsaw, and at 91 has at last seen part of his dream come true, Reuter reports from Warsaw.

The first and long-delayed seven-mile stretch of underground railway that opened for public use last week is a truncated and in some ways illogical system. But the professor does not hide his satisfaction. "This is a real start, although it is far from the ideal," says Prof Podoski, an electrical engineer and an urban planner.

The idea of a metro for Warsaw was mooted 70 years ago. But war, communism and economic troubles delayed it. The system combines the outmoded and the modern. Rolling stock is Russian, with Polish modifications.

By contrast, the metro's telecommunications, automatic traffic control, safety, surveillance and other systems are highly advanced.

The first stretch, with just 11 stations, will not make a dramatic or immediate difference to most of Warsaw's 1.5m people. The line would only make full sense if extended across the city centre to the northern outskirts.

But it has been inexpensive by international standards, costing $1.5bn (£933m) at current prices, although some transport analysts support an upgrade of Warsaw's tram system instead. Prof Podoski, now head of a committee advising the metro, argues that trams will always be too slow while a full underground system would unite sprawling Warsaw and turn it into a vibrant metropolis.

Murdoch's whole new sporting life

Nikki Tait reports as star rugby players sign to play for a pay-TV Super League

Rupert Murdoch plays tennis for pleasure. Kerry Packer is a polo enthusiast. Yet for the past 10 days, the two Australian media magnates, together with a bevy of children, henchmen and lawyers, have been locked in a vicious scrum, fighting over the future of rugby league.

By the end of last week, Murdoch's News group was claiming victory. It maintained that *its radical plan* to create a new global rugby Super League had enough committed support from Australian players and coaches, and from the English and New Zealand rugby league authorities, to make the concept viable by 1997 at the latest.

"The day football changed forever" ran the headline in one enthusiastic Murdoch-owned tabloid in Australia. Shares in Kerry Packer's Publishing and Broadcasting group fell 4 per cent.

However, the Australian Rugby League establishment, whose TV deal with Packer runs to 2000, shows no sign of knuckling under, and News itself has rejected talk of a peace plan which would see rugby league split into two camps, with broadcast rights shared by Packer and Murdoch.

There is also a host of legal issues to be resolved, concerning existing "loyalty" agreements between Australian clubs, their players and the ARL. But the ARL has suffered two crunching tackles since Friday.

Directors of the New Zealand Rugby League met to discuss Murdoch's Super League proposal, and unanimously supported New Zealand's involvement. In Britain, club chairmen also endorsed the concept, voting unanimously for a planned 14-team summertime European Super League starting next March, running to October and including two French teams. Some long established British clubs would be amalgamated, but then Murdoch is throwing the British sport a lifeline – its finances are rocky.

The motive *behind* News' ambitious strategy appears straightforward. The media group is already a major pay-TV player in Europe, through its interest to satellite broadcaster BSkyB, in which Pearson, owner of the Financial Times, has a stake. Now, as pay-TV finally becomes a reality in Australia, it has teamed up with Telstra, the large government-owned telecommunications group, and looks set to become a significant force there, too.

This joint venture, called Foxtel, envisages that Telstra will lay a national cable network over the next four years, and that News will provide the programming to run a pay-TV service on it. Foxtel also has an alliance with Australis, which started Australia's only existing pay-TV service last January 1 and holds one of the two commercially available satellite licences.

Since sports programming is one of the biggest drawcards for pay-TV subscribers, the need to secure attractive local footage is paramount. The problem is that Packer has rugby league – the most popular winter sport in key eastern states like New South Wales and Queensland – under firm control.

Thanks to the ARL deal, Packer's Channel 9 network airs the vast bulk of league programming. This, in turn, becomes a cornerstore of the network's winter schedule. Peak evening viewing hours on Friday, Saturday and Sunday, for example, are regularly devoted to screening league games.

With little hope of wresting existing rights, the Murdoch plan, which has been simmering for six months, is to create a new rugby competition, or Super League. Ironically, much the same stretegy wes employed by Packer when he thumbed his nose at the cricketing establishment and launched World Series Cricket in 1977.

Details of the mechanics of the new league remain imprecise. But the rongh idea involves the formation of about 10 Australian teams, made up of the current playing elite. In Europe, there would be a corresponding Euro league, probably based on a series of city-oriented teams, and now likely to include France as well as Britain. These teams would first play each other in regional competitions during Australia's winter (Europe's summer). The top teams would then compete in a world-class tournament later in the year.

International support is fairly critical, giving News the chance to argue that its Super League is a qualitatively different competition from the exist*ing 20-club competition run by* the ARL. Less high-mindedly, it maintains that the international involvement may mean that players who signed loyalty agreements with the ARL last week now have a get-out provision.

"I have been advised that where the ARL has indicated to players that they will not be able to participate in international representative games unless they sign to play with the ARL, a misrepresentation has been made to the player," notes Ken Cowley, head of News Ltd, the group's Australian arm.

Stewart Kendall

New "Super" star?: Welsh rugby league wizard Jonathan Davies

But the real crunch was always going to be Murdoch's ability to woo top players into the breakaway competition – or, conversely, their retention by the ARL. In recent days, the battle has been waged largely by the two magnates' chequebook-wielding offspring: 23-year-old Lachlan Murdoch and 27-year-old James Packer, both of whom are being groomed within their parents' businesses.

Their biggest clash came over Ricky Stuart, the Canberra Raiders' star halfback, who signed with the Super *League 10 days ago. He was* subsequently wooed by James Packer and the ARL, but finally stuck to his original decision. This, it is said, will bring him a guaranteed income of A$4m (US$3.08m) over the next five years. By the end of last week, around 120 players were understood to have signed with Murdoch, including most of the top Raiders and Brisbane Broncos players.

Meanwhile, at a press conference in a ritzy Sydney hotel last Thursday, Cowley gave some inkling of the financial cost of the venture. News' negetive outlays could run to A$100m over five years, he said – a more conservative estimate than the A$300m widely mooted in the local press.

But some money would flow back to News through an auction of the new "club" licences. Moreover, while Foxtel and BSkyB are expected to secure the pay-TV rights to the Super League, free-to-air TV rights would be sold to the highest bidder, even if it was Packer. "We understand the anti-siphoning laws," said Cowley.

The battle is far from over, with chief executives of most ARL clubs meeting for more *crisis talks on Friday. Legal* ramifications aside, there are deep ruptures within rugby league in Australia.

Reaction from fans and spectators has also yet to be gauged. One fear voiced is that ticket prices will escalate for Super League games; another, that the amount of rugby coverage on "free" television will be reduced.

Perhaps all that can safely be said, after a torrid week, is that the Murdoch and Packer chequebooks seem to have the edge on almost 90 years of sporting tradition.

Plug your mother into the digital galaxy

Andrew Adonis reviews Nicholas Negroponte's new book

Nicholas Negroponte's new book, *Being Digital*, is publisbed in Europe this month, following its earlier appearance in the US. It is the latest vision of the brave new world being spawned by advances in computing, multimedia and the communications industries.

In these spheres, Negroponte is the guru of gurus. As director of the Medie Lab at the Massachusetts Institute of Technology and moothly columnist in *Wired* magazine, he has long rehearsed the themes of this book.

But it will have a wide appeal nonetheless. Pithy and elegantly written, it will be lapped up by the IT and "superhighways" industries for its glimpses of the interactive future. For the uninitiated, it provides a useful opportunity to take stock of the progress and implications of the so-called information revolution.

Why a book? Negroponte justifies his recourse to Gutenberg's printed page, unadorned by a single illustratioo, by claiming that his tome is not for the IT-literate generation. "The andience for this book is your mother," he told me." (I am 32). "It is vital that the older generation find an accessible route into digital technology."

This goes to the heart of the social divide in Negroponte's digital world: the cbasm between the "digital literate" young and the "digital homeless" middle-aged and older (his terms). Only the former, he claims, will be able to succeed in a universe which is undergoing an "irrevocable and unstoppable" transformation from physical atoms to digital bits. CD-Rom, America Online and the wider gamut of digital products "are being taken for granted by children in the same way adults don't think about air (until it is missing)".

Nicholas Negroponte: guru of gurus in the brave new world

What he calls the "global movement of weightless bits at the speed of light" is the technological developmeot of the age. As Negroponte puts it: "Computing is not about computers any more. It is about living." He cites an array of statistics in support – the 30m estimated to be on the Internet (including *his* mother, who is 79), the 35 per cent of US families that now have a personal compnter (50 per cent among households with a teenager), and so on.

And the picture he paints is boundlessly optimistic: a digitalised American dream. Wholly new content will emerge, together with new economic models "and a likely cottage industry of informatioo and entertainment providers".

Video rental stores will be out of business within 10 years as video-on-demand surges forward oo the superhighway (oot a prospect that will appeal to Viecom, the US group which paid $7.5bn for the Blockbuster Video chain last year). And new "agent" technology will provide digital butlers as unobtrusive and efficient as Jeeves at pandering to our digital needs and whims.

Even the world of nations may crack at the hands of the new geoeration "emerging from the digital landscape free of many of the old prejudices". Negroponte does not specify precisely whicb prejudices he has in mind. Greed? Jealousy? Nationalism? He appears to be thinking particularly of the third, since "these kids [the digital geoeration] are released from the limitation of geographic proximity".

With digital technology, previously impossible dreams such as world government become viable – not only viable hnt strongly appealing, since "digital technology can be a natural force drawing people into greater world harmony".

Such prophecies have accompanied every technological advance from printing and railways to Nasa's moon landing, yet buman nature remains much the same and the evil-inclined have always proved able to harness new technology for their own ends.

A conference in Cambridge, England, last month on the information revolution, organised by the 21st Century Trust, included among its participants a vicar who is exploring the possibility of putting the Church of England on the Internet.

However, it is implausible that the internet will succeed – where Marx failed – in uniting the world's youth in digital freedom, destroying the shackles of ignorance, poverty and prejudice. In all probability, half the world's populatioo will never make a single phone call, let alone forge digital friendships across the global information infrastructure.

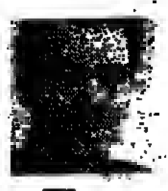
Negroponte expects the cost of computers to fall fast. Yet because the poor of Denver may be able to buy PCs and go online, it does oot follow that Delhi's poor are about to join the information society.

Not all Negroponte's predictions are of the peace-and-universal-goodwill variety. He recognises that the cost of telecommunications is a significant barrier to the spread of online services. He is also surprisingly cautious about the need for an immediate programme to provide universal fibre optic connections to the home – the curreot rage among the west's few "digital literate" politicians and policy makers.

"Like dogs in heat, broadband pundits are sniffing all the political opportunities for high bandwidth networks as if doing so were a national imperative or civil right," he remarks. Yet, as he rightly says: "Mother Nature and commercial interests, more than regulatory incentives, will make fibre happen naturally." And they will do so in their own good time.

● *Being Digital*, Hodder & Stoughton, £12.99. In the US it is published by Alfred A Knopf.

Copperplate v the computer



Tim Jackson

The other day I received an unusual letter: one so unusual that it was read and acted on while two dozen other pieces of opened correspondence lay ignored.

Only afterwards did I realise what had made it so distinctive and so pressing. While most of the mail that arrives on my desk comes from compnter companies or public relations agencies, and is thus exquisitely designed and laser-printed, this letter was written in brown ink with a fountain pen, in e fine italic hand.

In the last century, swift clear copperplate was an essential skill for clerks in government or business. The characters in triple-decker novels thought nothing of writing 1,000 words to each of three friends or cousins in a single day.

Even after the first world war, professional men still knew how to wield a pen. According to Harold Nicolson's memoir of Lord Curzon in *Some People*, the energetic colonial secretary could write 20 or more letters at a sitting, even with one gouty foot resting on a cushion.

For the past two generations, however, handwriting has been in decline in western industrial countries. Part of the blame must lie with the telephone and the deterioration of the postal service, which encourage people to talk to each other rather than write. For most people, written invitations are now confined to special occasions, and thankyou letters have become a rare and nostalgic form of courtesy. Banks, insurance companies and mail order firms, recognising that their customers no longer want to write letters, allow them to deal over the telephone with their credit cards.

But it is the personal computer revolution that is helping to drive handwriting into its grave. Word processing and desktop publishing have *become so cheap* and so convenient that even the shortest document is quicker and easier to compose at a PC keyboard than by hand; and the result, at least superficially, is more pleasing.

The ability to correct mistakes, and to move paragraphs around, is so addictive that those who have becoma used to writing on computer rarely want to go back to their old ways. When electronic diaries become universal, the only job still small enough for pen and ink will be the writing of notes to British milkmen, themselves a dying breed.

But the developers of computer software have grander ambitions than merely speeding up the editing and layout of documents. They also want to improve our spelling, punctuation, grammar, literary style – even the structure of what we write. This is why word processing programs now take up tens of megabytes of space on a hard disc.

At present, the fallibility of computer software keeps writers on their toes. For instance, spelling cbeckers that are incorrectly set np tend to insist on changing words that are already correct. (One professor at Carnegie-Mellon University, home of one of America's best computer-science departments, jokes that Microsoft Word insists on changing the name of his university every time be mentions it in a memo to Carnage Melon). Programs that aspire to check grammar and improve style are more rudimentary still. It is a favourite reviewer's trick to run a Churchill speech through such a program, and quote all the piously absurd advice it offers in a robotically misguided attempt at literary criticism.

But these problems will be solved in time. Not only will word processors be able to correct on the hop, so that writers need never find out that they cannot spell accommodation or supersede; they will also offer more confident, albeit more narrowly confined, advice on how to structure documents and letters and make them more easily understood.

In service industries, the spread of such software will have profound effects. Supermarkets, with their plastic prewrapping, bar codes, electronic cash registers and automatic waighing machines, have already made redundant the old fashioned grocer's ability to weigh and pack butter and sugar, and perform acrobatic mental arithmetic in pence, shillings, pounds and ounces.

In future, it is hard to see why an office manager will need to know bow to spell or to lay out a business letter when a computer program can do the job as well. Companies will thus be able to work as efficiently as now with less educated workers.

Yet the prospect of seeing handwriting become extinct is depressing. Handwriting is the only manual skill that workers in the post-industrial age still possess – and, in its higher forms, the only art form that most of us continue to practise in our daily lives.

It is hard to calculate how much dexterity might unwittingly be lost when we cease to use it. An indication of the risks comes from the fact that the Japanese, who have both the world's most demanding writing system and its lowest illiteracy rate, are also unusually good at the most precise kinds of manufacturing.

But there are other reasons to regret the decline of pen and ink. As graphologists well know, handwriting is a particularly intimate kind of self expression, whicb reveals much about the personality and mood of the writer.

As computers become more sophisticated at making mass mailings sent out to thousands of people look as though they are addressed only to one, the irregularity of handwriting will become the last remaining guarantee that a document's author is truly human. More than that, reading a letter written in a fine hand is a great pleasure, and one whose loss would make our culture perceptibly poorer.

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Award list leans towards quality

The jury for this year's FT architecture competition is spoilt for choice, says Colin Amery

With spring in the air, Britain's architects should be brushing up their façades and polishing their paintwork because this newspaper's architectural jury is on the prowl.

The search is on for the winner of the Financial Times architecture award: a prize that does not bestow lottery-scale riches but offers the quiet prestige and assurance to the winner that he or she has won the one architectural award that really counts.

Since the award began in 1967 it has been treasured for one thing. It is not a prize that is awarded incestuously by the architectural profession to one of its own, nor a reward for sticking to one particular stylistic line. It is a prize given for excellence in architecture – but the kind of excellence that pleases clients and users.

The objective of the award has always been to encourage business to build better buildings. When the award started there was a real case for limiting it to the design of buildings for industry as a carrot to encourage improvement of the industrial landscape. There can be no doubt that it has achieved that aim.

Although we still live with elements of industrial pollution, there has been enormous improvement in the quality of the working environment, and architects have played their part. Indeed, it is fair to say that architects have expended more skill on the working environment than on the domestic and housing front.

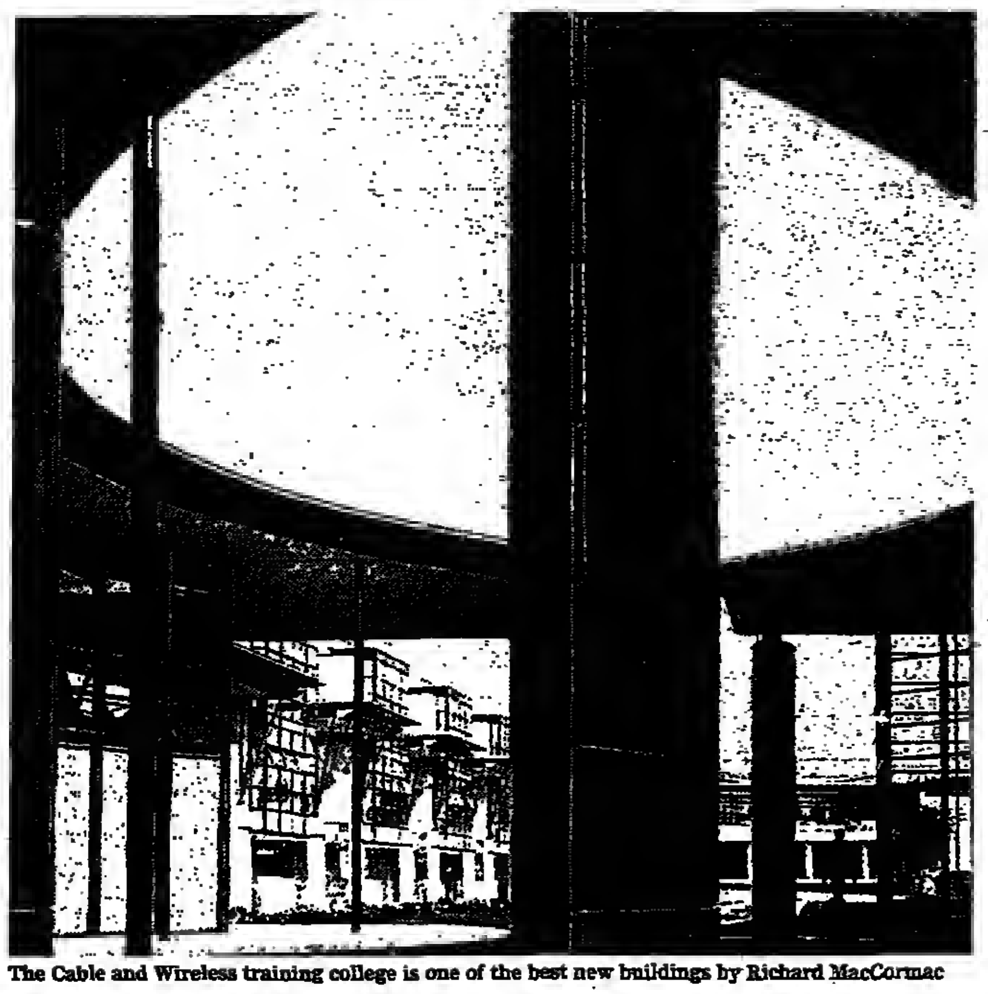
However, the Financial Times architecture award is today more broadly based than hitherto, and deals with virtually any place of work or entertainment so as to reflect changes in the pattern of employment in Britain.

Factories are few and far between on the entry list today, because each year's entry reflects not just architectural changes but also changes in the nature of society. The growth of offices and the leisure industry are just two recent significant developments.

There is another special quality about the Financial Times award, and that is the jury. There are always two distinguished architects but they are balanced by the presence of a prominent businessman – a leader in his field who represents the client's interest in architecture.

This year the jury members are: Sir Philip Powell, one of the creators of the prize-winning practice of Powell and Moya; David Chipperfield, representing the younger practices; and Sir Simon Hornby, a former chairman of W H Smith and the present chairman of the Royal Horticultural Society, who has personally commissioned a number of important buildings. He was recently chairman of the Design Council and of the jury to select an architect for London's Tate Gallery Thames-side offshoot at Bankside power station.

What is impressive this year is the high quality of so many of the entries. In previous years there have been 90 to 100 entries. This year some 60 buildings have been entered, but quality is much higher.



The Cable and Wireless training college is one of the best new buildings by Richard MacCormac

The growth of the number of commissions in the leisure sector is significant, with entries that range from a new opera house to tennis and health clubs. Glyndebourne Opera House in Sussex, designed by Michael Hopkins and Partners, is an example of brilliant private commissioning and of a successful process of architect selection. The quality of the interior of the new house – its use of timber and concrete – is remarkable, as is the way the new building is begining to settle into its historic setting.

The rise and rise of the out of town supermarket has not always led to an improvement in architectural quality, but Sainsbury, at least, is committed to that very thing. Its new store at Plymouth by Jeremy Dixon and Edward Jones has been described by one critic as representing a design renaissance for supermarkets. Its beautiful canopies of sweeping sails make it a landmark, one that represents the last piece of fine engineering by the late Peter Rice.

In Whitechapel, London, the same company has commissioned D Y Davies to build an inner city supermarket that makes a fine contribution to a depressed area, and in Coventry, Lifschutz Davidson has given Sainsbury one of its best new stores – and a remarkable petrol station – that breaks the mould.

Transport is another area where there has been a big improvement in quality. Nicholas Grimshaw's work for the Channel Tunnel Waterloo terminal is already a London landmark. It is impressive for the sheer ingenuity of its use of a tight and difficult site. On a smaller scale, London's Docklands light railway has produced several good designs, including Ahrends Burton and Koralek's station at Beckton.

Companies like Cable and Wireless that are working at the cutting edge of communications technology have also recognised the value of good architectural design. Its new training college outside Coventry is one of the best new buildings by Richard MacCormac, a former president of the Royal Institute of British Architects. We are used to the older universities commissioning important buildings, and the new library for St John's College, Cambridge, is a bold addition by Edward Cullinan.

From a new public lavatory in London's Notting Hill by Piers Gough to the Sizewell B power station – the range for this year's FT jury is immense and impressive, and represents an encouraging architectural picture for the years leading up to the turn of the millennium. The quality of British design and architecture, if not its quantity, is in excellent shape. Perhaps that is one virtue of the recession: the best practitioners have survived. The jury, asked to produce a single winner, faces a daunting task. The results of its long search will be announced later in the year.

Strike, you're in

SPORT

KEITH WHEATLEY

Two weeks from now baseball returns to the US after a seven-month absence. One of the most bitter labour disputes imaginable has left the national game with a timetable for resumption but precious little else.

There were no street riots, but the "fight to the death" attitude between owners and players reminded me of the unholy events of 10 years ago when the coalminers shook the British government.

The 28 major league baseball teams claim to have lost more than $700m in revenue during the stoppage. In turn, the players, many of whom scoop salaries of $3m to $4m per season, say their lost wages amounted to more than $200m. And both sides know, deep down, that they would have battled on, but for the intervention of a federal judge.

Although the owners claimed to be anxious for peace, it soon leaked out that at their Chicago summit last weekend at least 16 hardliners voted to lock out the striking players. Only a constitution that called for a three-quarters majority on such a grave issue averted the debut of "scab-ball" as it was dubbed by the US sports media.

Basically, the owners had pulled together what were officially termed "replacement teams" – amateur and minor league players, since anyone within pitching distance of being a real professional ballplayer was in the union and on strike.

All these strike-breakers were due to receive a $25,000 bonus the day the new season began, but the owners' decision not to proceed with scab-ball came within hours of the first payout and saved them a collective $20m. So the replacements left the field of dreams and went back to waiting at table and valet-parking, having attracted horrible abuse from fans and from the men whose unbelievably well-paid jobs they were taking.

Probably the only good to come out of the whole replacement saga was to push Michael "Air" Jordan back into the Chicago Bulls basketball team. Two years ago Jordan dismayed fans with a premature retirement (the Bulls kept paying his $3.9m a year salary) to go off and be a rookie baseball player with one of the Chicago White Sox minor league teams.

As the baseball strike worsened, the White Sox management increased the pressure on Jordan to play in replacement games. It would have been an enormous PR coup, given that the owners were lacking players with the clout to pull in any sort of crowd.

In a pacesetter action the radio station WABC filed suit against the New York Yankees claiming $10m in lost advertising revenue because of the "sham competition" offered by replacements. Jordan decided he had an alternative future (unlike most replacements) and left the White Sox training camp in Florida on March 2. This proved to be a significant thorn in the owners' side.

Yet the past week has turned out to be a worrying time even for established players. Brett Butler, 37, has played 1,945 games for the Los Angeles Dodgers. The centre fielder was voluble in his criticism of the "scab" players during the strike. Last January, Butler was offered a $3.5m renewal of his Dodgers contract. He accepted the offer in principle but said he would not sign until the strike ended.

On the day that happened he called the team offices but was told the offer was withdrawn. "I'm now just trying to find a club that wants me to play for them. It's pretty emotional but nothing in this game surprises me any more," he said. The Dodgers claimed that Butler was simply a victim of a new economic ball game: California's leading club plans to reduce its total payroll from $38.5m to $25m in a single season. "The strike has had a very major impact on us," says Dodger president Peter O'Malley. "It has been a major financial hit to everyone in baseball."

Each club is going to be looking for cheaper, younger players. But the players who lined up as replacements cannot be used. If they were, there would be blood on locker-room floors. "We're professionals, but that doesn't mean there isn't going to be a little bit of resentment there," said one veteran player, with masterly understatement.

At present there is an uneasy ceasefire rather than genuine peace. There is still no bargaining agreement, no hint of a permanent settlement, and no guarantee from the players that they won't strike again in August – thus rubbing out another World Series, with minimum loss to their salaries.

In a worrying sidebar that illustrates the prevailing mood of trench warfare, major league umpires are still the victims of a lockout by the owners. Richie Phillips, head of the umpires' union, reports that his own expectations of a settlement linked to that of the players were squashed during a tough four-hour meeting with the owners in Philadelphia.

The biggest uncertainty of all is how the fans will react when baseball arrives back in their lives. Shocked, many have displayed considerable dislike of the contempt with which both owners and players have treated them since last August.

There was a joke running around the clubs last month: how do you tell a replacement player? Answer: he's nice to the fans. Like many a cruel gag, it had a horrible ring of truth to it. "I don't think anything has been accomplished in the past seven-and-a-half months," says the Dodgers' senior player, Mike Piazza. "The thing is now to stick with it. If we walk out again, it's safe to say the fans will turn on us pretty good."

CONTRACTS & TENDERS

ARTS

LONDON
The crowds will be out on Thursday when Luciano Pavarotti (left) returns to the Royal Opera House for a revival of "Un ballo in maschera". This middle-period Verdi opera has proved one of the most congenial for Pavarotti in the past and a reasonably strong supporting cast is on hand this time round.
At the Riverside Studios, o three-month season of Moving Theatre under the aegis of Vanessa (right) and Corin Redgrave begins this week with a Bosnian production of "Silk Drums". Vanessa's own performances, which include her third shot at Cleopatra, begin next week.

The new Frank McGuinness version of "Uncle Vanya" reaches England today after a tour of Ireland. As seen at its premiere, this was a contained account of Chekhov's play. Stephen Rea takes the title role; Pater Gill directs.

VIENNA
The 1840 premiere of "Un giorno di regno" (King for a Day), Verdi's second opera, was a fiasco, and it has been *rarely heard since*. This week's German-languaga revival at the Volksoper aims to breathe new lifa into the work's old-fashioned libretto and unconvincing buffo style. The conductor is Asher Fisch, the producer Helmut Polixa, and the cast is headed by Renato Girolami. First night is on Thursday.

NEW YORK
On Friday the Metropolitan Museum of Art presents a collection of photographs by Nadar, the celebrated portraitist of mid-19th century Paris. Although Nadar was active as a photographer for merely a decade (1854-65), he created some of the most *memorable images* that survive from the innovative early years of photography. The exhibition includes prints which have never been seen outside France.

ROTTERDAM
Over the past century the Boymans-van Beuningen Museum has assembled an extensive collection of oriental porcelain, much of which is seldom displayed. An exhibition opening on Friday includes objects of exceptional quality and rarity, mostly imported to the Low Countries from China *and Japan in the 17th* and 18th centuries. The show will underline how oriental porcelain influenced tha development of Delft pottery and other aspects of Dutch decorative art.

PARIS
The Centre Georges Pompidou has organised the first French retrospective of Constantin Brancusi (1876-1957), whose polished, pared-down sculptures tread e unique line between figuration and abstraction. Born in Romania, Brancusi (left) spent most of his life in Paris and bequeathed his studio and its contents to the French state. The exhibition, comprising *more than 100* sculptures, drawings and photographs, opens on Friday and will move to the Philadelphia Museum of Art in October.

Hidden treasures with an open secret

Brian Sewell on the story behind the Hermitage's Impressionist exhibition

Outrage is the only reasonable response to a new catalogue of Impressionist and other 19th-century French paintings suddenly exhibited at the Hermitage in St Petersburg.

The extended entries in *Hidden Treasures Revealed* by Albert Kostenevich (Weidenfeld and Nicolson, £30) are scholarly, the illustrations illuminating and the translation from Russian inin English largely felicitous, its Americanisms rare. But these are minor matters, for the 74 pictures do not belong to the Hermitage, are not on loan to it, and are not even old expropriations by the Bolsheviks from wealthy Russian merchants, but are war booty, all but one of them stolen from German private collections.

After half e century of silence, letting the world believe them destroyed, the authorities in St Petersburg have plucked them like plums from Jack Horner's pie, and justify their putting them on view with arguments that must astonish and appal all who read the catalogue.

The director of the museum, Dr Mikhail Pietrovsky, writes with a casuistry which would outdo that of any Jesuit of a "unique sense of discovery ... in this historic exhibition". It is historic only in his impertinence in mounting it with such dissembling. He writes not of theft, pillage, loot or booty, but of "relocation" in accordance with "*appropriate instructions from the* authorities"; of pictures "moved to the Soviet Union", and of his museum as "charged with providing safe conditions", making it clear that these acquisitions were not by impetuous response to ad hoc conditions, but by careful planning, yet saying nothing of the true circumstances.

The truth is that in 1945 the Russians appointed a group of authorised plunderers, the *Trophäen Organisation*, under a Major Grigorow, with instructions to remove important pictures to Russia. All the German museum anthorities affected were given to understand that the removal was permanent – and so, in many cases, it has proved.

Pietrovsky argues that as the war drew to its close, the western Allies, as well as the Russians, removed works of art from Germany, or took them under their protection – the lame "everybody did it" argument of schoolboys.

The truth is that the American occupatioo authorities collected every work of art under their jurisdiction in a depot at Wiesbaden, and the British at Celle, and nothing was removed from the country (apart from whatever it was that Anthony Blunt rescued for the King, the removal of the Brunswick treasures to the Tower of London and the Victoria end Albert Museum, and the small mystery of Hanoverian treasures – but these were all private matters with royal connections).

Pietrovsky's second schoolboy excuse is that the Germans did it first and worst, not only in removing works of art by train and truck-load, but in the deliberate destruction of cathedrals and churches, palaces and public buildings, and their immovable treasures.

As examples of Russian magnanimity, he quotes the decision in 1955 to return paintings taken from the Dresden Gallery. But he ignores the motive of reward for the lickspittle loyalty of East German politicians and the propagandists who claimed that their Russian allies had rescued them from appalling conditions (not true, for they had been stored in much the same way as those evacuated from the National Gallery in Londoo), and overlooked the damages and losses that had occurred during their transport to Russia – paintings by Courbet, Cranach, Brueghel, Guercino, Dosso Dossi et al, more than 150 of them.

We are led to understand that this exhibition is no more than a peep into the vast treasury of thefts from German museums and collections still stored in Russia. Pietrovsky boasts that their sequestering for decades has protected these paintings from the "energetic restoration" that has in the west ruined so many of their ilk, and that their undisturbed condition enables us to see them as their painters intended.

He claims thet in exhibiting them he pays homage to "the remarkable collectors who sought out and cherished these works"; but he abjures all responsibility even for an opinion on their restitution with "it is not for me to go into the legal issues involved".

Some may argue that to have retained their pictures until 1945, Otto Krebs, Alice Meyer, Friedrich Siemens and the families of Bernhard Koehler and Otto Gerstenberg must have been supporters of the Nazis. But Siemens lost his collection in 1944 when his brother-in-law was executed for his part in the plot to assassinate Hitler, the Meyer family was Jewish, and Gerstenberg had been a close friend of the Jewish painter Max Liebermann.

We know nothing of any of these collectors to connect them with the Nazis, but even if we did, such an allegiance cannot be used to justify the theft of private property, which is protected by Article 46 of the rules governing land warfare determined by the Hague Coovention of 1907, to which Russia is a signatory.

Much is claimed for this exhibition, even that it is so significant that we must reconsider the whole history of Impressionism. But this is nonsense, for both Christie's and *Sotheby's have since the war* mounted auctions at least the equal of these collections, and there is little to astonish old hands in the field.

Krebs, the most accumulative of the collectors, appears to have had a taste for plump young women that blinded his eye for quality in paint – his Renoirs are embarrassingly bad – and his taste for flowers was worse, with Renoir again at fault, and a Fantin-Latour of flattened peonies that is a ludicrous dud. He bought wretched things by Vuillard, Manet, Marquet and Matisse, and one of his Van Goghs is bad eoough to be mistaken for Utrillo.

But his eye for Cézanne was far from uncertain, and his early Picasso of an absinthe drinker (a boy, not a girl, as catalogued) was a sure and daring purchase.

The two finest pictures, however, both by Degas, belonged to others – to Siemens a melancholy interior with figures, and to Gerstenberg an astonishing and beautiful town*scape*, the "*Place de la Concorde*", with a gaunt figure on the left setting the scale and framing the composition like the columns of a Giant Order on a Roman temple.

These pictures cannot be returned to their former owners, for all are now dead; if their heirs cannot be traced, then they should be returned to German museums; they do not belong to the Hermitage and should never again disappear into the dungeons of St Petersburg, lost for another half century, of no advantage even to the thieves.

Degas's 'Place de la Concorde': an astonishing and beautiful townscape on show at the Hermitage in St Petersburg

Theatre/**Alastair Macaulay**

Music and love with 'Twelfth Night'

Though it is easy, only too easy, to find fault with Ian Judge's 1994 production of *Twelfth Night* for the Royal Shakespeare Company, it has the same effect now that it reaches the Barbican as last May when it was new, of making us fall in love again with this beautiful play.

When you are in love with *Twelfth Night*, you have fallen for more than Shakespeare – you leave the theatre in love with life. *Twelfth Night* is largely aboot people in love; and it is astonishing how Shakespeare shows that most or all love is actually oothing but projection anyway while still making our heart beat powerfully in response to the emotion. But around and beyond all this urgency about love, *Twelfth Night* catches – oh – the grief that people feel for their dead brothers, the lives that are nothing but eating and drinking, the hostility of Puritans in riotons living, the revenge of pleasure-lovers on Puritans, the rain that raineth every day. The sum of this play is far, far more than its parts.

Perhaps oothing can explain why the arrival of Malvolio to shut up the after-midnight revels of Toby Belch, Andrew Aguecheek and Feste is one of the great moments in world drama. (After all, can anything explain why the greatest moment in all art coocerns whether Figaro or Cherubino jumped oot of the window?) Partly it is that Shakespeare shows us that happiness, even when it comes in the guise of drunkeo wassailings after midnight, is wonderful, and that it is the nature of life that such happiness will be cut short.

Partly it is that with Toby & Co we are romping children again, whereas Malvolio is a spoilsport, a humourless grown-up; and yet all of us in our time have been Malvolio too. Partly it is that Shakespeare catches the very essence of intimate quotidian human reality in this prosaic downstairs uproar, as he does at the Garter Inn, that is absent from the more profound and refined marvels of the verse scenes elsewhere.

And partly it is that the first of these late-night songs – "O mistress mine" – is still in our thoughts, hanging tenderly in the air where Feste left it, with its "Carpe diem" philosophy of "Present mirth hath present laughter" and "Youth's a stuff will not endure". Toby Belch and Andrew Aguecheek are spending their lives no more *fruitfully than* the noble and lovesick Cesario, Orsino and Olivia, but they are every bit as human and loveable.

Judge's staging – designed by John Gunter and Deirdre Clancy to take place in Illyria-upon-Avon – has warmth, and time and feeling. It shows the full value of music and silence. Briefly, though, it is often too cosy and too charming, and both of its two most distinguished performances – Desmond Barrit's huge, prune-faced, Welsh-valley Malvolio and Emma Fielding's tiny, vulnerable, brave Viola – have lost freshness.

Barrit, great comedian, oow shamelessly milks his great sceoe with the letter à la Frankie Howerd, whose art he often recalls; and Fieldiog, whose vowel sounds vary, distractingly, like Eliza Doolittle in mid-training and whose entry into words is still sometimes unclean, has also started to wait for laughs, to prolong pauses, and to over-use the immense charm of her eyes and voice.

The whole production needs to be tightened up, for technical reasons as well as actorly discipline. And – while I am at it – this is the third time in four months that Nigel Hess's offstage musical accompaniment for a Barbican RSC production has sounded like pre-recorded film music. One note from those amplified strings and the production starts to travel soupily towards Hollywood.

And yet there are worse sins than charm and cosiness. No doubt there *are those who can resist the* Andrew Aguecheek of Bille Brown. He is sometimes too audience-conscious, and he overdoes the shtick of trying to curl his flaxen hair. But oh! the way he gleefully yet bashfully tries out a dance step, half-tumbles down the stairs, says, "I was adored once too" in sudden sobriety ... Everything about him is *hopeless and adorable*.

In RSC repertory at the Barbican Centre.

Alastair Muir
Desmond Barrit as Malvolio

INTERNATIONAL ARTS GUIDE

BALTIMORE

THEATRE
Center Stage Tel: (410) 685 3200
● Hannah Senesh: written and directed by David Schechter, music composed and arranged by Steven Lutvak. An adaptation of diaries and poems by a *Hungarian Jewish woman in Nazi occupied territory*; 8pm; to Apr 23 (Not Mon)

BERLIN

OPERA/BALLET
Deutsche Oper Tel: (030) 34384-01
● Aida: by Verdi. Conductor Stefan Soltesz, production by Götz Friedrich; 7pm; Apr 14
● L'Italiana in Algeri: *by Rossini.* Conducted by Ion Marin/Carlo Rizzi, produced by Jérôme Savary; 7.30pm; Apr 12
● Magic Flute: by Mozart. Conducted by Lawrence Foster/ Sebastian Lang-Lessing/Stefan Soltesz and produced by Günter Krämer; 7pm; Apr 18
● Onegin: music by Tchaikovsky. Première at this venue, choreographed by John Cranko, produced by Reid Anderson and Jane Bourne; 7.30pm; Apr 11, 15
Staatsoper unter den Linden Tel: (030) 200 4762
● Der Rosenkavalier: by Strauss. Nicolas Brieger directs this new production. The sets are designed by Raimund Bauer and Donald Runnicles conducts; 6.30pm; Apr 13

BONN

GALLERIES
Kunst-und Ausstellungshalle Tel: (0228) 9171 236
● Russian Museum of St. Petersburg: third in "The Great Collections" series. The museum in St. Petersburg houses a collection of 500,000 works from which 500 works have been selected for this exhibition to represent 500 years of Russian art and culture; to Aug 13 (not Mon)

LONDON

CONCERTS
Barbican Tel: (0171) 638 8891
● City of London Sinfonia: with soloists Rosa Mannion, Sally Burgess, Matthew Best and the Holst Singers. Harry Christophers conducts Bach's "Magnificat" and Mozarts's "Requiem"; 7.30pm; Apr 16
● Royal Philharmonic Orchestra: with soprano Christine Brewer. Jane Glover conducts Schoenberg, Strauss and Mozart; 7.30pm; Apr 13
● Yo-Yo Ma: cellist with the London Symphony Orchestra. Sir Colin Davis conducts Tippett and Elgar while Leon Kirchner conducts the UK premiere of his own "Music for Cello and Orchestra"; 7.30pm; Apr 12
Queen Elizabeth Hall Tel: (0171) 926 8800
● Carmina Quartet: with pianist Andreas Haefliger plays Beethoven, Debussy and Brahms; 7.45pm; Apr 10
Royal Festival Hall Tel: (0171) 928 8800
● Bach: St. Matthew Passion: with the Bach Choir and the English Chamber Orchestra. Sir David Willcocks conducts; 7.45pm; Apr 11
● London Choral Society: Jane Glover conducts Handel's "Messiah"; 6pm; Apr 14
● Piano, Orchestra and Band: Martyn Brabbins conducts the Michael Nyman Band, The Philharmonia Orchestra and pianist Kathryn Stott plays Nyman's "The Piano Concerto" and the UK's premiere of "MGV-Musique Grande Vitesse"; 7.30pm; Apr 13
GALLERIES
Tate Tel: (0171) 887 8000
● British Sporting Art: this special display from the collection focuses on the flourishing of sporting and animal painting in Britain from around 1720 to 1850; from Apr 11 to Jul 2
OPERA/BALLET
English National Opera Tel: (0171) 632 8300
● Don Giovanni: a new production of Mozart's opera. House debuts for director Guy Joosten and conductor Markus Stenz; 7pm; Apr 11, 13, 15
Royal Opera House Tel: (0171) 304 4000
● Peter Grimes: by Britten. Directed by Elijah Moshinsky and conducted by Edward Downes; 7.30pm; Apr 11
● The Prince of the Pagodas: by Britten. A Royal Ballet production choreographed by Kenneth MacMillan opens a Benjamin Britten "mini festival" at the Royal Opera; 7.30pm; Apr 10, 15 (7pm)
THEATRE
Cockpit Tel: (0171) 402 5081
● The Yiddish Trojan Women: by Carole Braverman, directed by Hattie Macdonald. Comedy involving four American Jewish women; 8pm; to Apr 23 (not Sun)

NEW YORK

CONCERTS
Avery Fisher Tel: (212) 875 5030
● New York Philharmonic: with pianist Mitsuko Uchida. Kurt Masur conducts Beethoven's "Piano Concerto No.2" and Shostakovich's "Symphony No.5"; 8pm; Apr 11 (7.30pm)
● New York Philharmonic: Kurt Masur conducts Weber, Schumann, Williams and Prokofiev; 8pm; Apr 12, 13, 14 (11am)
Carnegie Hall Tel: (212) 247 7800
● Alfred Brendel: an all-Beethoven programme by the *pianist*; 8pm; Apr 10
OPERA/BALLET
Metropolitan Tel: (212) 362 6000
● La Traviata: by Verdi. Produced by Franco Zeffirelli, conducted by John Fiore; 8pm; Apr 11 (8.30pm)
● Parsifal: by Wagner. Produced by Otto Schenk, conducted by James Levine; 6.45pm; Apr 14
● Pelléas et Mélisande: by Debussy. A new production by Jonathan Miller. Conducted by James Levine; 8pm; Apr 13 (1.30pm)
● The Ghosts of Versailles: by Corigliano. Produced by Colin Graham, conducted by James Levine; 8pm; Apr 12, 15
New York City Opera Tel: (212) 307 4100
● Harvey Milk: music by Stewart Wallace, libretto by Michael Korie. A new production conducted by Christopher Keene and produced by Christopher Alden, a story about gay activism, dirty politics, murder and street riots; 8pm; Apr 13
● La Traviata: by Verdi. A new production conducted by Yves Abel and directed by Renata Scotto. Soloists include Janice Hall/Oksana Krovytska and Stephen Mark Brown/ Richard Drews; 8pm; Apr 16 (1.30pm)

PARIS

CONCERTS
Champs Elysées Tel: (1) 49 52 50 50
● Philharmonic Orchestra of St. Petersburg: with violinist Martha Argerich. Youri Temirkanov conducts Prokofiev; 8.30pm; Apr 12
● Philharmonic Orchestra of St. Petersburg: with violinist Shlomo Mintz. Youri Temirkanov conducts Prokofiev; 8.30pm; Apr 11
● Philharmonic Orchestra of St. Petersburg: with mezzo-soprano Eugénie Gorokhoskaya and the London Symphony Chorus. Youri Temirkanov conducts Prokofiev; 8.30pm; Apr 13
GALLERIES
Galerie Schmit Tel: (1) 42 60 36 36
● From Delacroix to Matisse: exhibition including the works of Picasso and Degas; to Apr 13
OPERA/BALLET
Opéra National de Paris, Bastille Tel: (1) 47 42 57 50
● Lucia di Lammermoor: by Donizetti. A new production by Andrei Serban. Maurizio Benini and Roberto Abbado (from April) conduct the orchestra and chorus of the Paris National Opera; 7.30pm; Apr 11, 14, 16 (3pm)
THEATRE
Petit Odéon Tel: (1) 44 412 36 36
● Cat end Mouse (Sheep): written and directed by Gregory Motton, a satirical look at present-day England. In English, this is the first in a season of English plays at this venue; 6.30pm; to Apr 23

WASHINGTON

CONCERTS
Kennedy Center Tel: (202) 467 4600
● Jessye Norman: *soprano with* pianist Ann Schein in a programme of works by Berg, Strauss, Ravel and Messiaen; 7pm; Apr 10
● National Symphony Orchestra: with conductor/violinist Iona Brown plays Strauss, Haydn, Vaughan Williams and Mozart; 8.30pm; Apr 13, 14 (1.30pm), 15
GALLERIES
National Museum of Women in the Arts Tel: (202) 783 5000
● Sogonisba Anguissola (1532-1625): a renaissance woman. Premiere showing in the US of 24 works that includes intimata family portraits exemplifying the times in which she lived; to Jun 25
THEATRE
Roundhouse Theater Tel: (301) 933 1644
● Escape from Happiness: by George F. Walker, directed by Daniel DeRaey; 8pm; to Apr 16 (not Mon)
Studio Theater Tel: (202) 332 3300
● Rhinoceros: by Ionesco. Joy Zinoman directs the Absurdist's comedy warning of the dangers of conformity; 8pm; to Apr 16 (not Mon)

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A strategy for dollar revival

MICHAEL PROWSE on AMERICA

If Washington policy makers decide, belatedly, that a stronger dollar is a priority, what can they do to promote it? The obvious answer is to tighten monetary policy. Yet given last week's disturbingly soft economic data, the propitious moment for a rate increase may have passed. Action now would do little for the dollar and might trigger a sell-off in domestic equity markets, with unpredictable consequences.

A better approach would be to articulate a longer-term economic strategy that addresses investors' reservations about the US. The first and most important step would be to tackle the root cause of dollar weakness: low national savings.

The Clinton administration has admittedly taken modest steps to reduce the federal deficit, which is down even after adjusting for cyclical factors. And the focus on Capitol Hill will shortly shift from tax cuts to spending cuts. Newt Gingrich and his Republican troops are likely to prove more enthusiastic deficit-cutters than markets suspect.

Yet even if Congress and the White House do agree a credible medium-term deficit reduction plan (which is by no means certain), private-sector saving needs to be stimulated. The best solution would be bipartisan commitment to radical tax reform.

Given Republican interest in the idea, Mr Clinton might be able to strike a deal to replace income tax with a "consumed-income" tax, calibrated to raise the same revenue as current taxes while exempting all forms of saving. Such a tax would sharply increase personal incentives to save. Over time it would bring domestic investment and savings into better balance and thus help reduce the external deficit.

A second, related way to restore confidence would be to send a clearer signal that Washington cares about external deficits. In a world of mobile capital, current account deficits are to be expected: there is no reason to keep domestic saving and investment perfectly in balance. But a persistent external deficit – the US has not run a surplus since 1981 – is a legitimate source of concern. Beyond a certain point, investors doubt whether a debtor nation will ever generate the primary surpluses required to service interest on accumulated debts.

Yet the universal assumption in Washington is that inflation is the only constraint on growth. The Federal Reserve is expected to step on the brakes if and when inflationary pressures mount, but not otherwise. The US should perhaps acknowledge that, having borrowed heavily overseas for 15 years, it faces an "external constraint" somewhat akin to that experienced by Britain in the post-war years. Until structural reforms to raise savings take effect, the US should be willing to depress demand, even if inflation is not a threat, to keep the external deficit from ballooning.

The exchange rate can bear some of the strain, as it has since the mid-1980s. But depreciation is not a weapon that should be used indefinitely. The dollar has now fallen to levels where faith in its value as a global reserve asset – as a long-term store of value – is being seriously eroded. The advantages of providing a reserve asset are modest: the US is able to borrow a little more cheaply than would otherwise be the case. But the transitory pain involved in losing reserve asset status is considerable, as Britain can testify.

Taking steps to increase the credibility of US monetary policy would be a third way to boost confidence. Under Alan Greenspan, the Fed has established a fine track record: US prices have risen less rapidly than German prices in recent years despite much faster US growth.

But the Fed's future is uncertain: Mr Greenspan's term expires early next year and Mr Clinton may not ask him to stay on. There is thus a case for heeding Republican calls for a change in the Fed's terms of reference, making price stability its sole goal. At present it has to balance growth and inflation objectives, creating risks if a less hawkish chairman succeeds Mr Greenspan.

The dollar has sunk far below the "equilibrium" rates of about Y100 and DM1.60 that many economists believe are sufficient to stabilise the external deficit in the absence of structural reforms to raise the savings rate. A rebound – perhaps vigorous – is thus probable later this year even if nothing is done to reassure overseas creditors.

Looking beyond cyclical blips in demand, the strongest plus for the dollar is the vitality of US industry. After painful restructuring in the past decade, corporate America is arguably in better shape than at any time since the 1950s. Capital spending has contributed more to this upturn than to any in recent memory. Non-residential fixed investment has risen 40 per cent in real terms since early 1991. Profits have soared. And exporters have regained market share in many sectors.

The significance of a recent acceleration in productivity growth is disputed, but Mr Greenspan is not alone in arguing that an industrial renaissance is under way. He made clear in recent congressional testimony that efficiency gains are almost certainly not a transient phenomenon. And he pointed out that the US has regained its edge in many high-technology sectors after faltering in the 1970s. In computer software, for example, the US now possesses a decisive global lead.

Given this underlying industrial strength, quite modest policy adjustments of the kind outlined above would probably be sufficient to alter decisively sentiment towards the dollar. The essential point still not grasped in Washington is that policy cannot remain focused purely on the domestic economy.

Seed of democracy in the desert

David Gardner detects a softening in the Saudi Arabian monarchy's absolute grip on power

The man who spoke first in the debate was an Egyptian Marxist. It was midnight in a wedding hall on the outskirts of Riyadh, and our host was a Saudi prince who had invited 100 intellectuals – a quarter of them from other Arab countries – *to put their views on* the politics, religion and culture of Saudi Arabia and the region.

Such open debate was "rarer than rain" in a society ruled on feudal lines by an absolute monarchy, a Palestinian academic observed, ignoring the freak showers that had just brought the desert into bloom. The prince's unique, if informal, *majlis* was a sign that something is stirring in the kingdom of Saudi Arabia.

"There is now a lot of debate, inside and outside the monarchy," says another member of the royal family. "But what is being discussed is the speed of reform; what to change, how to do it, how to package it and sell it."

The House of Saud, which forged the modern Saudi Arabia in 1932 after a series of conquests, has overcome many challenges to its hegemony. It has managed the sudden arrival of great wealth from its ownership of a quarter of the world's oil reserves, followed by a downward spiral in oil prices; the importing of foreign labour equivalent to a third of the population; the 1979 seizure of the great mosque at Mecca by Islamist zealots, and the annual influx of 2m Moslem pilgrims, including organised partisans of Iran's Islamic revolution; and the 1991 Gulf war, with the socially and politically discomfiting presence of some 800,000 foreign troops on Saudi soil.

"If you have looked at the emergencies and dislocation this country has been through since the 1950s – and you didn't know the outcome – you would surely have concluded that [the Saudi state] had not survived," smiles one middle-ranking member of the royal family. "But I agree that the challenge is not over: in some respects, it is just beginning."

For years, the Al-Saud have monopolised power and, in return, provided a subsidised livelihood for the masses and an affluent lifestyle for the elite. Now, however, the Al-Saud grip on power is taut with unresolved tensions. Saudis are better educated and increasingly demanding, at a time when the government's reflex response of throwing money at the least twitch of discontent is finally being constrained by the effects of a decade of fiscal deficits.

Ancient and modern: young Saudi children before a computer image of a mosque Peter Ryan

Soft oil prices have led to a shortage of cash. Last year and this, the government decreed severe budget cuts to reduce the deficit from around 9 per cent of gross domestic product in 1994 to about 4 per cent by the end of 1995. It has also delayed or rescheduled payments to foreign and Saudi contractors, and sharply raised hitherto minimal local fees for power, petrol, water, telephones and domestic flights. "We were living in a fat environment," says Mr Abdul-Rahman al-Zamil, deputy trade minister.

But there is little room for manoeuvre. Foreign assets have been run down to $65bn (£40.6bn) – about half pre-Gulf War levels or a third of holdings a decade ago – and these are illiquid. The kingdom spent up to $60bn underwriting the Gulf war and is committed to $80bn in capital outlays, two-thirds of it on weapons, worsening a 10-year-old trend of large current account deficits.

Government officials rightly point to achievements in developing infrastructure and diversifying away from crude oil production to petrochemicals, plastics and other industries. Mr al-Zamil says $16bn in spending cuts last year were "replaced" by an increase in private-sector investment of $15bn, keeping growth marginally positive. But domestic growth does not supply the government with revenue, almost all of which comes from oil.

Part of the Saudi social contract is that there is no income tax, with corporate tax only on foreign companies, most of which have been set up under tax holiday schemes. King Fahd in January told his subjects this year's utility price rises were only temporary, but that depends on the oil market. The extra revenue raised by this year's budget would evaporate with little more than a $1 drop in the price of crude.

Dissent in the kingdom is diffuse and hard to quantify, and is as likely to focus on corruption and the conspicuous consumption of some members of the royal family as on the overall policy of financial austerity.

The Saudi regime is to some extent a victim of its successes. In the last 25 years, half a million Saudis educated abroad have been exposed to outside influences, and the government has imposed education for a generation of women, who nevertheless remain invisible under the austere Islamic social code, segregated in public and at work. Civil service pay structures have not been changed for 14 years, making many young Saudis dependent on extended families to get by. "This is a society in ferment," a western diplomat says.

Although tough decisions lie ahead – such as whether to introduce wider taxation and a mooted mini-budget with a further 4 per cent spending cut on top of 19 per cent in 1994 and 6 per cent this year – there is no effective mechanism for consultation. Two years ago King Fahd created a Majlis al-Shura (consultative council) to fill this vacuum. But although its 60 members are highly educated, they are nominated by the king, who may ignore them.

Policy-making can be hesitant, with public opinion tested only after a new policy has been announced. "You get the input to policy-making at the point of output," says one academic, referring to the frequent withdrawal of edicts once they are found to antagonise particular interest groups. Four years ago, a decree levying income tax on foreigners was revoked within 48 hours when it became clear that hospitals and universities dependent on them would grind to a halt.

Opinions differ on the risks the monarchy might take on reform. The most unexpected speaker at that wedding-hall debate was Mr Ahmed el-Tuweirjeri, one of the kingdom's most articulate dissidents, imprisoned in 1992 as a signatory of the first of half a dozen petitions to the king, calling, among other things, for elections to the Majlis al-Shura and an end to corruption. After softening up his audience with a risque joke and some verse, he advocated pluralism, without calling the monarchy into question.

As one Islamist reformer puts it: "We have advanced materially, while retreating intellectually. [Elections] are an absolute necessity to preserve social cohesion and prevent breakdown. Some of our conceptions are simply wrong. There is nothing in our religion that says women can't participate fully in society. It is more [a question of] tradition."

Such voices underline that the traditional religious establishment has fallen into discredit because of its slavish adherence to the monarchy, and that younger religious leaders must be brought into the debate on reform; if they are excluded, they may fall under the spell of the fundamentalists who urge the Al-Saud to live up to their severe Wahhabi brand of Islam.

But as one experienced diplomat in the kingdom warns, "reform implies reformers, it implies organisations, and there is no tolerance here for that". The government has cracked down on fundamentalists, while giving free rein to the Motawa, or religious police, to enforce social conformity.

"We are trying to provide the objective situation for gradual change," says one liberal prince, who acknowledges that "one of the obstacles to change is that we are co-opting the fundamentalists. The Motawa you see in the streets is part of that". Elections, and the integration of women into public life, "will eventually happen", he believes. King Fahd, he says, "takes time to make up his mind".

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). Translation may be available for letters written in the main international languages.

Technology way out

From Mr S.L. Sidkin.

Sir, The proposed EU technology transfer regulation has the ability to cause European business great harm ("New tangle for red tape", April 4). But for companies which are contemplating a know-how licence agreement there remains a limited escape route.

The proposed regulation will provide transitional relief. It will not replace the existing know-how licence block exemption regulation until December 31 1999. Companies will not have to worry about the proposed new market share tests if they can meet the requirements of the present regulation. The only disadvantage is that by that date either the commercial need for the agreement must have ended or the parties will need to decide whether and, if so, how to approach the European Commission.

For the future it is hoped that the Commission learns from its folly in planning for the replacement at the end of 1997 of the block exemption regulations for distributorship and purchasing agreements.

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UK

False views that explain failure over former Yugoslavia

From Mr Otto von Habsburg MEP.

Sir, If one needed additional proof for the reasons of the dismal failure of the international community in former Yugoslavia, it is furnished to us by Michael Williams's article "Why Croatia must win Serb hearts" (Personal View, April 7). Having been in Croatia, but also in Bosnia, Slovenia and Macedonia many times in recent years, I want to rectify certain of his questionable statements, mainly due to omission of significant facts.

Mr Williams says not a single word about the fact that the so-called Republic of Serb Krajina was created due to the invasion of this area by the Serb-dominated federal army and, in its wake, the Chetnik forces from Serbia.

He gives no indication of the fact that in the Croatian army 18 per cent of the volunteers are Serbs from Croatia – the national group which has given the highest percentage of fighters to Croatia. They are among the best in the defence of their homeland – Croatia.

In the Croatian Sabor (parliament) there are 11 elected Serb members and one of the vice-presidents of tha parliament is a Serb from Knin.

Nearly half a million have had to leave their homeland in the so-called Serb Republic of the Krajina because of "ethnic cleansing" by the invaders. This partly explains Mr Williams's statement: "There is no political power base in Serb Krajina to which advocates of a return to the Croatian fold can appeal." There are, furthermore, no power bases, since there is no democracy in the Serb Krajina.

I could add other facts, but the points I have made show the false ground on which the conclusions of the article, which represents the official attitude of the so-called international community, stand.

Otto von Habsburg,
European Parliament,
Strasbourg, France

Government lead would save more companies

From Mr Michael Pearl.

Sir, The UK government has announced a new procedure for ailing companies akin to Chapter 11-style protection in the US ("Radical plan for company rescues", April 6).

One of the principal problems with the procedure will be that it requires a 75 per cent majority of creditors by value to approve it. This is the same hurdle that is required for a corporate voluntary arrangement (CVA).

There have been very few CVAs approved by creditors. The majority of these proposed arrangements fail because the Inland Revenue and Customs and Excise invariably vote against such proposals or, at best, do not bother to vote.

This lack of support by what are, in practice, other branches of the government is also likely largely to frustrate the new scheme. Small companies in particular will be prevented from using the scheme because the crown creditors usually represent their largest liabilities.

As part of the introduction of the new measure the government should issue guidelines to the Revenue and Customs and Excise to look more favourably on this and existing procedures. To do so would save thousands of jobs and thereby generate further revenues for the Treasury.

Michael Pearl,
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EU must press South Korea to remove auto import barriers

From Mr Willy de Clercq.

Sir, The trade balance between the EU and South Korea is more or less even (total value Ecu15.28bn with a trade deficit of Ecu183m). These figures are only slightly in favour of South Korea, but this may soon change. In the auto industry, South Korea will become a threat to EU industry.

The auto industry employs 3.6m workers in Europe. It is a world industry that is dominated by three trading blocs: the EU, the US and Japan. EU manufacturers remain in a dominant position in their own market (80 per cent market share in 1993) but they have very little market share in the US and Japan (2 per cent), and next to none in South Korea.

These figures expose the Achilles heel of European carmakers in the medium term – exports: their incapacity to break through in non-European countries. The situation is exacerbated by the fact that foreign carmakers are gaining market share in Europe while we are hamstrung abroad.

South Korea provides the most striking example of the increase of foreign autos in Europe. South Korean auto sales in Europe tripled from 36,496 units in 1991 to 180,000 in 1994. By extrapolation, these figures will reach 360,000 by the year 2000. On the other hand, the EU exported just 1,500 to South Korea (0.15 per cent of the total Korean market).

With the exception of the general custom tariff of 10 per cent and with the exception of Japanese cars until the year 2000, the European external borders are entirely *open* for every auto import from third countries.

However, free trade is not as welcome in South Korea. Although concessions have been made by the authorities there concerning customs barriers, formidable non-tariff barriers remain. Some examples: foreign cars are restricted to only 20 sales outlets, each with a maximum area of 3,000 metres. Advertising restrictions are present as well.

Could it be that third world countries follow protectionist trade practices while the EU practises fair-trade policies? The commission should negotiate with South Korea in order to eliminate its non-tariff trade barriers. If it refuses – that is, if Korea maintains trade barriers – the commission will have to make a complaint to the World Trade Organisation, which is responsible for the settlement of disputes.

The EU presently has a trade deficit with Japan that amounts to Ecu25bn. Europe cannot allow another Japan to arise in Asia, now especially with our unacceptable level of unemployment. Europe must act or the issue will be closed. South Korea: partner or adversary? That is what the EU will determine for itself.

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FINANCIAL TIMES

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Monday April 10 1995

Russia is no tame bear

Since 1991 Russia has been transformed. Many things are still to be decided, but some choices have been made. Russia will not return to state planning, but the economy will be far from competitive; it will not embrace totalitarianism, but will constrain democracy; it will avoid wars of conquest, but remain jealous of its power and prestige. Russia will be an uncomfortable neighbour: too big to ignore, but too different to be entirely trustworthy. The western embrace must be wary.

This is not how it seemed three years ago. Then Mr Boris Yeltsin was the hero of resistance to the coup and the hope was of a democratic, pro-western, pacific Russia. Some would argue that stronger western support would have secured this result. That is a question for historians. As today's FT Survey shows, what is emerging from the collapse of the Soviet Union is a new Russia whose foundations lie in its own history.

The positive achievements of Mr Yeltsin's presidency have been to establish private ownership and decentralised decision-making as guiding principles for the bulk of the nation's economy. The new economy is based on the market, but it is anarchic, predatory, corrupt and oligarchic. Some parts have done spectacularly well: the rapidly developing service sector and the private financial sector. Combined with distortions and political privilege, privatisation has allowed relatively small groups of people to amass vast potential wealth. Some have transformed control into outright ownership; others have exploited the opportunities for arbitrage.

Extend control

A new commercial aristocracy has been born. In a society without law, it is inevitably intertwined with the state, itself recovering its nerve and trying to extend its control within Russia and throughout the "near abroad". The brutal war in Chechnya, viewed as a disaster by the west, has strengthened the presidency and the security apparatus, while severing the connection between Mr Yeltsin and enfeebled democrats. Alliances are being forged between the new wealth and the old power. The balance between the various forces is fragile. But the proposal to hand over control of much of industry to the banks is a symptom of the emerging accommodation between the commercial elite and the state.

Political will

Whether Russia does stabilise is a question of political will. The International Monetary Fund's decision to sign up to a $6.3bn (£3.9bn) Russian stabilisation programme was likewise a political calculation. But now may indeed be the time for successful stabilisation, since those with wealth will want the opportunity to exploit it and those in charge of the state wish to see its power reborn. More questionable is whether the result will be a competitive and efficient economy. Indicators over coming months will be whether it proves possible to tax the energy sector, whether there is further price and trade liberalisation, whether opportunities are given for foreign investment and whether a social safety net is established.

Unfortunately, the maldistribution of wealth and power is likely to give Russia a rentier economy that fails to provide the competitive dynamism the country desperately needs and its elite expects. It will also make democracy less workable, since it must pit a deprived and resentful majority against a wealthy minority. One danger is populism; the more likely outcome is repression.

Modestly democratic, this will be a less frightening Russia than in Soviet days, but still a forceful neighbour. Its command over resources has reduced much of the former Soviet Union to submission. Russians remain gripped by the mystique of power, determined to see their country receive the recognition due a great power.

The west should encourage the Russians to choose a competitive economy over a cartelised one, a stable economy over an inflationary one, and a democratic polity over an authoritarian one. But its influence is limited. Russia is unlikely to become the country the west would like it to be. Policy towards Russia should be framed without illusions. It will never be the west's tame bear.

French race to the finish

With less than two weeks to go before the vital first round of the French presidential election, everything is still to play for. Mr Jacques Chirac may have emerged as a clear front runner, but Mr Edouard Balladur, his conservative arch-rival, is putting in a strenuous effort to narrow the gap and win back some of his erstwhile support. Even Mr Lionel Jospin, the socialist candidate, has gained enough credibility to come in the top two in the first round of voting, although nobody believes he can possibly win a straight contest with either of the others in the run-off on May 7.

That is not to say the field is very inspiring, nor that the arguments raging on the hustings have proved very profound. On many issues, the differences between the leading candidates are not wide, and the French electors may be forgiven for feeling confused. Many may end up making their choice on the basis of personality, rather than programme. That would be a pity, but the French system, with such a powerful presidency and weak political parties, tends to work that way.

France is facing profound social and structural challenges in the coming years, and it will need a clear-sighted and vigorous president to lead the country through them. One of his first tasks should be to limit the powers of the presidency itself, and seek to promote an altogether more vigorous parliamentary debate. Another will be to define France's role in the post-cold war era, including the big changes ahead in the European Union, in the transatlantic relationship (including Nato), and in its relations with its former colonies, particularly in north Africa.

Continuing strain

On the economic front, the biggest challenge, and the most important issue so far in the election campaign, will be dealing with the intractable problem of structural unemployment, above all for young people. Radical thinking is needed to deal with a chronically over-regulated labour market. Related to that will be the continuing strain on the French economy imposed by the political commitment – shared by all the main candidates – to join the planned European economic and monetary union from the start.

There is a very obvious difference in style between the two conservative front-runners in their answers to these challenges. Mr Balladur takes a cautious, gradualist approach, offering a little constitutional reform and a continuation of the present government's slow but steady onslaught on the budget deficit and unemployment.

Sweeping terms

Mr Chirac talks in far more sweeping terms, seeking to create a psychological climate more akin to a revolution. He is seeking to mobilise a broad section of the political spectrum from right to left, combining incentives for small business with direct subsidies for job creation.

Mr Balladur's caution is clearly more popular with the markets, who fear the threat of budget indiscipline implied by his rival. Mr Chirac's figures do not obviously add up, unless he can create the virtuous circle he proclaims, of growing tax revenues from growing employment, thus curbing the threat of excess spending.

As for Mr Jospin, he has seized upon the simplistic formula of a cut in working hours – without a corresponding cut in pay – as a popular but unrealistic way of seeking to create more jobs. None of the three appears to have an adequate policy agenda for such a fundamental problem.

All three share a lot of common ground on Europe: none is making sweeping commitments to building a federal Europe, yet all are believers in the central Franco-German relationship as the motor of continuing European integration. Mr Chirac appears to think he can have an enlargement of the EU to the east, without any further reform of the common agricultural policy – an unlikely scenario. But a strong EU remains a pillar of his foreign policy.

On polling day, the French electors are almost certainly going to have to choose on the style and personality of the men, rather than on their programmes. Mr Chirac shows a greater awareness of the scale of the task facing France in the next decade, but he is dangerously prone to seeking to please too many audiences. Mr Balladur seems to lack the political vision, as well as the common touch, but he looks a safer bet on fiscal grounds. At this moment, France seems inclined to take the bigger risk.

A tide of foreign capital has swept into economies from Chile to China in the past few years, as industries as diverse as fast food, financial services and semiconductors have expanded across the world in search of new markets and production bases.

No less dramatic has been the change in attitudes of host governments, particularly in the developing world. Former hostility towards multinational companies has crumbled, as countries have set out to woo foreign direct investment (FDI) and the jobs, technology and prosperity it brings.

Annual FDI outflows – representing greenfield projects, acquisitions and joint ventures – have risen almost fourfold since 1985 to $204bn (£128bn) last year, twice as fast as world trade. However, unlike trade, investment is governed by few multilateral rules or disciplines.

Now, under strong US pressure, leading industrialised countries plan to create some. Ministers of the 25-member Organisation for Economic Co-operation and Development are expected in late May to launch negotiations on an agreement, to which non-OECD members would then be asked to subscribe.

The aim would be to commit host governments firmly to the principle of treating foreign-owned businesses like local ones, in addition to removing obstacles to inward investors, such a move would clarify their sometimes ambiguous status and safeguard them against political and legal discrimination.

Previous – less ambitious – efforts to draft international investment rules have made little headway. But experts think the outlook this time is more promising. "The opening of the developing world to FDI has created a genuine opportunity," says Dr Michael Hodges of the London School of Economics.

Nonetheless, stiff challenges lie ahead. It is not always easy to be sure whether frustrations encountered by foreign investors – such as takeover barriers – reflect deliberate discrimination, or countries' cultural and structural differences. Furthermore many obstacles arise from what have long been regarded as legitimate public policy concerns. They include state ownership, industrial support programmes, planning laws and a wide variety of market regulations.

Even if OECD members can sort out these complexities, hopes of establishing truly global rules will depend on persuading developing countries to endorse a deal in which they have not been involved.

Sir Leon Brittan, Europe's trade commissioner, wants negotiations in the World Trade Organisation, because its members include most of the developing economies. However, the US, Japan and most EU governments want the OECD to take the lead, arguing that its smaller membership, informality and experience with investment policy will allow faster progress.

Most governments believe the agenda should at least cover foreign investors' basic rights. These include freedom to establish operations, repatriate earnings and conduct foreign exchange transactions, as well as safeguards against expropriation. It is also agreed that – unlike past OECD accords – this one should be binding and enforceable through a disputes mechanism.

The keenest controversy is likely to centre on how far the negotiations should aim to expand opportunities for foreign investors through more fundamental reform of national policies.

Some European companies say they mainly want to protect existing interests – not least in the US, where proposals in Congress would deny foreign-owned subsidiaries the right to national treatment. But many US companies are eager to prise foreign markets open further, particularly in Europe and Japan.

"We want an aggressive agenda," says Ms Khristine Hall, of IBM's Washington office. "If we end up with an agreement which simply codifies the existing situation, it won't be good enough." According to Mr Dan Price, legal adviser to the Washington-based European-American Chamber of Commerce, an active lobbyist for improved investment rules: "Governments should commit themselves up front to achieving liberalisation."

The shopping list of US companies includes commitments to open up state monopolies, lower takeover barriers and enable foreign investors to participate fully in privatisations. Other demands include better access to government research programmes, more freedom to employ expatriate managers and, possibly, moves to align national competition policies.

How strongly Washington backs such proposals will depend on how it balances its ambitions for an agreement containing high standards with its desire for quick results. But as prime mover behind the talks, the US seems likely to press for a substantial deal.

Transatlantic sparring appears set to dominate the debate. The US is already angered by an EU proposal for an opt-out which would allow it to liberalise internally faster than required by any OECD agreement, but without extending the benefits to third countries.

However, the outcome of the talks may depend as much on each side's ability to forge consensus within its own ranks as on settling differences with the other.

It is still uncertain how the EU's 15 members – whose foreign ministers are due to approve the OECD negotiations today – will play their hand. They are used to representing their national interests in the OECD, and their attitudes on some issues – such as state ownership and public monopolies – differ widely.

The commission's authority to negotiate on investment and services is legally unclear, and it lacks a mandate to represent the EU in the OECD. That is one reason why Sir Leon would have preferred negotiations in the WTO, where the commission's influence over EU policy is more firmly established.

But some EU governments say his stance argues for giving the commission a back seat role. "It hardly seems a good idea for the negotiations to be led by someone who did not really want them to be in the OECD," says one official.

There are uncertainties, too, about Washington's room for manoeuvre. One of the biggest – which also applies to Australia and Canada – is over the power of federal governments to ban discrimination by states and cities.

Many complaints by foreign-owned companies in the US concern state rules. They include mandatory "performance requirements", such as job creation targets, for subsidised inward investments, takeover barriers and preferential procurement policies.

The US may also face international pressure to clarify its procedures for screening inward investments on security grounds, and to relax restrictions which have barred companies, such as British Airways, from acquiring control of US airlines.

Many foreign companies, meanwhile, want guarantees that they can participate in federally funded programmes such as Sematech, the US semiconductor research consortium set up in response to Japanese competition.

Even if the US wins sizeable concessions from other governments, proposals to change its own laws and regulations may face resistance in Congress, which is increasingly sensitive to perceived threats to national sovereignty.

For all these reasons, observers are cautious about forecasting what sort of agreement the planned talks will produce – or how developing countries will react to it.

However, if the US does not get its way in the OECD, it may switch its efforts to other arenas, such as the 18-member Asia-Pacific Economic Co-operation forum. Some experts fear that could make a global agreement harder to achieve.

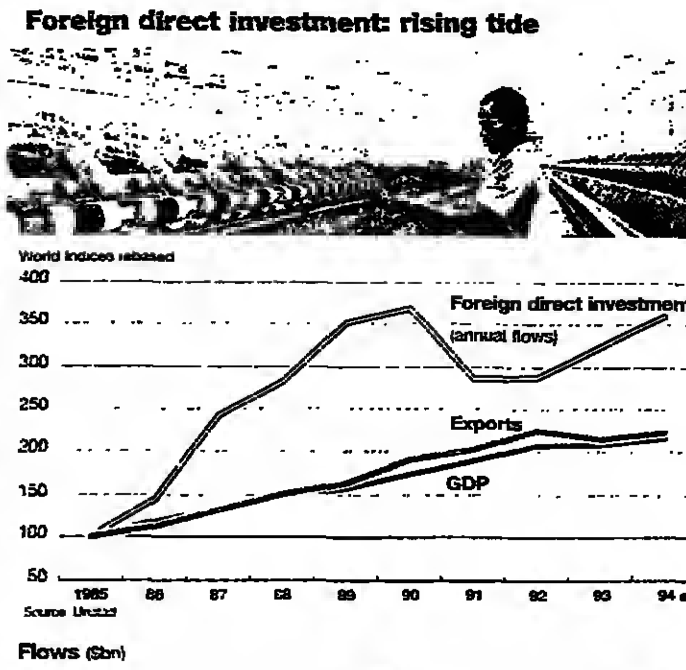
"I am concerned that putting too much weight on a regional grouping could undermine the multilateral system," says Ms Sylvia Ostry of Toronto University, previously Canada's chief trade negotiator.

In the coming months, though, talks in the OECD are likely to occupy centre stage. They should offer a revealing test of whether accelerating economic integration is creating more common ground between governments – or fresh reasons for political discord.

Guy de Jonquières assesses the prospects for agreement on a set of international rules which would cover foreign direct investment

Rocky road to liberalisation

Foreign direct investment: rising tide



Flows ($bn)

Inward	1985	86	87	88	89	90	91	92	93	94
Developed countries	43.1	67.8	113.4	132.3	169.5	176.0	119.5	105.9	106.4	117.0
Developing countries	13.7	14.2	24.1	28.1	29.3	32.6	40.3	53.1	71.6	80.3
Outward	1985	86	87	88	89	90	91	92	93	94
Developed countries	52.5	85.5	132.0	161.9	214.8	228.5	184.4	174.0	180.9	191.9
Developing countries	1.2	1.7	2.4	6.2	10.7	10.0	5.5	9.7	11.7	12.1

Source: Unctad Division on Transnational Corporations and Investment database

Health chaos in the City of London

PERSONAL VIEW

The UK government's London health reforms, announced last week, have caused a serious rift between the City of London and the Department of Health. This is because of the City's anger at the demise of St Bartholomew's hospital, an 800-year-old institution most of whose facilities will be transferred away to Whitechapel in London's East End under plans by Virginia Bottomley, health secretary, for rationalising the capital's health services.

The decision to concentrate medical care at Whitechapel will leave the City's particular corner of the east London health district, which looks after about 1m residents, worse off than any other area.

Putting it bluntly, the changes could mean that an office worker or resident taken seriously ill in the so-called Square Mile will be a 20-minute ambulance-ride away from the medical attention he or she needs in average traffic, against less than 10 minutes at present.

This is an extraordinary state of affairs for a unique area, housing what is predominantly by day a working community of white-collar commuters, to have to cope with. No state-decreed formula can accommodate a mix of nearly 300,000 people who commute daily to Europe's financial heart with some 25,000 residents and a large number of elderly patients from neighbouring boroughs such as Islington and Hackney.

Mrs Bottomley's reforms could hardly have come at a worse time, just when intense activity to promote the City of London overseas is producing dividends which benefit the whole of the UK.

German, Japanese and US banks are steadily moving their European headquarters operations in foreign exchange and securities dealing to London from continental Europe, with all the positive spin-offs in terms of jobs and wealth creation that this entails.

Yet here is the UK government choosing to undermine one of the positive infrastructure-related arguments for companies to locate in the City of London by dismantling a great medical institution to the astonishment of the financial community.

The government's reform process might perhaps be understandable if the new facilities it has promised were already in place or at least under construction. But this is far from being the case. The accident and emergency unit at St Bartholomew's was closed in January and the required replacement extension of the Whitechapel facility is not yet in place.

Would the authorities in competing financial centres allow a similar situation to prevail?

In fact, the most significant transfer of medical services from one site to the other is dependent on £300m of government funding which has not yet been committed. This extra uncertainty increases the risk that vital and interrelated services may be marooned in two separate locations during the transfer period: a heart-attack patient who developed lung problems might, for example, have to be moved from St Bartholomew's to Whitechapel in circumstances that could harm their prospects of recovery.

What the government has come up with is a dogmatic and poorly constructed reform plan which is running ahead of its capability to deliver. The victims are the working and resident population in and around the City of London, who face 10 years of health chaos. Is it conceivable the authorities in competing financial centres such as Frankfurt and Paris would allow a similar situation to prevail?

While maintaining staunch opposition to the closure of facilities at St Bartholomew's, the Corporation of London, in its role as the local authority for the area, has sought to rescue what it can from the ashes by formulating a community hospital plan for the present St Bartholomew's site. This project, costing between £6m and £8m, has the potential to fill the most obvious gaps left by the reforms, especially in the short term.

Contrary to some reports, this will not be a hospital for rich yuppies. Its facilities will be as available to a pensioner in Hackney as to the chief executive of British Petroleum or another multinational corporation. It will provide healthcare free at the point of delivery for National Health Service patients.

If focused medical activity continues in this way on the St Bartholomew's site, there is a better chance that the transfer of services to Whitechapel will not take place to the extent at present envisaged. This would help achieve some of the objectives of those who have campaigned vociferously for St Bartholomew's to stay open. The prospects of this happening would be further improved if the government's health care reforms for the district fall apart, as I think they will.

Michael Cassidy

The author is chairman of the policy and resources committee of the Corporation of London.

OBSERVER

The fat lady welcomes you

■ The last time the European Bank for Reconstruction and Development held its annual meeting in London, two years ago, the IRA seized the occasion to bomb half the City.

While the glass was being swept up, Jacques Attali, the EBRD's first president, was under attack for spending more on marble and glitter at the Broadgate HQ than on the fledgling entrepreneurs of post-communist Europe.

Attali has gone, although the fat lady statue still reclines languorously in front of the bank. This year the assembled financial glitterati agree that Jacques de Larosière, Attali's successor, has done a good job of making the bank a more respectable, if duller, place.

But the underlying national rivalries and personal feuds which lay so close to the surface two years ago are still there, as the bank prepares to ask the 59 government shareholders for more capital.

The EBRD's founding compromise allocated its base to London, the juiciest jobs to the French and the dominant shareholding to the Americans. The Germans were left out, to be compensated by siting the new European Monetary Institute in Frankfurt.

Winners have been London-based accountants, bankers and consultants, along with a plethora of often state-owned French banks and enterprises. City firms have played on their proximity; French firms have milked their connections.

The Germans virtually ignore the bank, even though they have become by far the biggest trade partners for virtually every former communist country.

Lengths of the official guest lists tell a revealing tale. More than a third are from City, or City-based, subsidiaries of foreign firms and banks. That of France covers more than 18 pages, while Germany's is just seven pages. The US musters only five.

Today's afternoon session is given over to: "How the EBRD can work with you." The main speakers are Guy de Selliers, deputy vice president of banking, and Jean-Francois Maquet, senior operations adviser, banking. In English, of course.

Wonder brain

■ India's tough, terse and controversial chief election commissioner, T.N. Seshan, brooks no opposition when he fears the precious democratic process is in danger of being impugned.

He recently postponed state elections in Bihar because of pre-poll violence, and banned TV election analysis of earlier results in case it influenced the Bihar voters.

Such is his love of a clean political punch-up that he's announced that he might even be prepared to enter the fray himself.

In a TV interview Seshan has just canvassed support for his political future, though only if enough people write in to persuade him: "Wherever the public thinks I will be of maximum use to this country, I will act," he said.

"My health is fantastic and my brain is in great condition. And if I can be of use, please write and tell me," he added. Form an orderly queue.

Diplomatic choice

■ As the US and Japan limber up for another trade spat over cars, Tokyo is preparing to nominate the exquisitely polite Kunihiko Saito as Japan's new ambassador in Washington. Saito, 60, currently vice foreign minister, Japan's senior Tokyo-based diplomat, is expected to take up the post towards the end of this year.

Unlike Walter Mondale, the US ambassador in Tokyo, Saito is a bureaucratic rather than political appointee. Yet his arrival in Washington may be taken as a political sign of Japan's eagerness to refresh friendships.

Saito won American respect for his role in seeking to contain the revival in trade tensions after the 1993 election defeat of the Liberal Democratic Party, when Japan's new coalition government felt there was much political mileage in saying no to Washington.

He wasn't the only candidate. Hisashi Owada, who has been ambassador to the UN since last April, was thought of. But the ministry felt that Owada would be more useful seeing through Japan's bid for permanent membership of the UN security council, having paved the way for the approach in the first place.

Another reason is that Owada, as father of Crown Princess Masako – incidentally a former diplomat – might have felt slightly awkward piloting his way round the rough patches yet to come in US-Japan relations.

Airy interval

■ For a man who, in his bid to become president, has placed growing emphasis on patriotism and the need to restore hope to the French, Edouard Balladur, the prime minister, made an intriguing choice of airline to transport him and an entourage of journalists to Corsica at the end of last week.

For the plane belonged not to Air Inter, the French domestic carrier, but to TAT, the airline affiliated with British Airways.

Of course, it may have been the case that Balladur simply wanted to ensure he didn't get caught up in the latest two-day strike to hit the country yesterday and today. The strike is being staged by the pilots of – Air Inter.

Financial Times

100 years ago

New company
Rand Central Electric Works Ltd. Objects: To carry on the business of generators and distributors of electric energy for the purpose of light, heat, motive power or otherwise at the Witwatersrand and elsewhere in South Africa; to supply electric energy to the mines and other properties situate in or near to the Witwatersrand and elsewhere; for the above purposes to enter into and carry into effect two agreements expressed to be made by this company with Messrs Siemens and Halske of Berlin, and to carry on the business of an electric light and power company in all its branches.

50 years ago

Reichsbank arrests
From Reuter, Zurich: Six high officials on the Board of the Reichsbank, and their assistants, were arrested by the Gestapo when it was revealed that the Allies had captured part of the German gold reserves near Gotha. Berlin stresses, however, that the Allies have captured only a small fraction of the total gold reserves, the majority of which are safely hidden.

FINANCIAL TIMES
Monday April 10 1995

US group buys majority stake in Russian fund

By John Thornhill in Moscow

Pioneer Investments, the US fund management group, is living up to its name by becoming the first foreign investor to buy a majority stake in one of Russia's voucher investment funds.

The deal's architects say it could have a significant impact on the development of Russia's retail savings industry, bolstering the government's efforts to mobilise domestic capital for corporate investment.

On Saturday, Pioneer won the overwhelming approval of the 2.1m shareholders in the First Investment Voucher Fund, the largest in Russia, to buy a 51 per cent stake in the fund. The investment, costing $18m, will give Pioneer management control of the fund's assets, bank and brokerage business. It will also provide access to a large retail infrastructure through which Pioneer hopes it could market US-style mutual funds in future.

Mr Timothy Frost, president of Pioneer's Moscow office, said: "This deal provides us with a business which could form the basis of a retail distribution network and a full-scale financial services company."

The Russian fund, which was formed to manage the investment vouchers distributed during the first phase of privatisation, has large shareholdings in 180 Russian companies, as well as investments in government debt instrumants and commercial properties.

Many of the voucher funds set up at that time have since defrauded investors, revealing themselves to be little more than front companies for criminal gangs. But First Investment Voucher Fund has a reputation as one of the most respectable and transparent funds. Pioneer spent nine months negotiating the deal and conducted extensive due diligence.

Pioneer has been active in other emerging economies such as the Czech and Slovak republics and India and attracted $1bn of domestic savings from 500,000 shareholders in Poland after it launched a mntual fund there three years ago. The Polish fund has had a big influence on the development of the local capital markets and at one time held up to 10 per cent of the domestic national debt.

But Mr Frost said Pioneer would not launch mntual funds in Russia until the "harmful" tax regime bad been changed. He said the stock market infrastructure also needed to be developed before mntual funds could operate with confidence.

Mr Mikhail Kharshan, chairman of the voucher fund's management committee, recommended the deal to shareholders. "We believe that this partnership will strengthen our position in the Russian investment market," he told a packed shareholders' meeting, which lasted nine hours.

The Russian fund's directors said they expected a significant inflow of money after the deal was closed tomorrow. The deal does not need regulatory approval although it has been informally discussed with government officials.

British MPs seek sweeping powers for fair trade body

By James Blitz in London

A prominent committee of British MPs is to recommend that the operations of the Office of Fair Trading and the Monopolies and Mergers Commission should be overhauled, arguing both are ineffective in stamping out restrictive trade practices in the UK.

After the recent controversy caused by Sir Bryan Carsberg's resignation as director general of fair trading, the all-party House of Commons trade and industry committee is to call for the OFT to be given sweeping executive powers to investigate alleged breaches of UK trading law and to impose spot fines on companies which persistently abuse market power.

The report, due to be published after the Commons returns from its Easter break, will recommend that the OFT should become a more pro-active body with powers similar to those enjoyed by Germany's Federal Cartel Office.

It will also be critical of the way in which MMC investigations are conducted by investigating panels, arguing that part-time members sometimes allow ideological preferences to dictate judgment of cases.

Under the present regulatory framework, the OFT investigates whether companies are involved in restrictive practices. It then refers alleged breaches of the rules to the MMC, with a final decision on the case being taken by government ministers.

But the committee is to recommend that the OFT should be equipped with teams of permanent officials, each of which would police activities across particular areas of industry. These officials would develop a body of existing case law, allowing them to judge whether restrictive practices were in operation and take direct action to remove them.

Tha report will recommend that the OFT continues some of its current practices, such as random investigative surveys of trading across certain sectors.

The report will go some way towards meeting Sir Bryan's criticisms of Britain's regulatory framework. Sir Bryan, who announced last year his decision to step down early from his post, called for the MMC and the OFT to be scrapped to bring Britain into line with international practices. He also wanted a new body to take a more active role in stamping out restrictive practices.

Sir Bryan said the laws of the European Union, the US, Canada and several individual EU states all prohibited certain kinds of anti-competitive behaviour, and he would favour adopting the prohibition approach in the UK.

He said he would relinquish his post next month after it became clear the government was not planning to include reform of competition law in its parliamentary legislation this year.

UK Tory quits after claims of sexual misconduct

By John Kampfner in London

UK prime minister John Major's week-old relaunch of his government suffered a severe setback yesterday as another senior MP was forced to resign after allegations of sexual impropriety.

Mr Richard Spring, 48, said be was standing down as parliamentary private secretary to Sir Patrick Mayhew, Northern Ireland spokesman, after a report in the Sunday tabloid newspaper, the News of the World.

The loss of the 17th member of his government over accusations of sexual, financial or other misconduct undermined Mr Major's efforts to stave off humiliating losses in local council elections in England and Wales next month. Having seen their party lose control of every council in Scotland last week, Conservative backbench MPs are preparing for a similar trouncing on May 4.

But cabinet ministers rallied round Mr Major, dismissing talk of an immediate leadership challenge. Mr Michael Howard, home affairs spokesman, said: "Three years ago today the prime minister led us against all the odds to an election victory that no one expected us to win."

He added, on the BBC's *Breakfast With Frost* programme: "If it weren't for John Major we wouldn't be in government today. He won that general election. I think he's going to take us to victory in the next general election too."

Mr Douglas Hurd, foreign secretary, admitted the Conservatives were in deeper trouble than before. Recalling the last leadership contest after Lady Thatcher's enforced resignation in 1990, Mr Hurd said Mr Major was an admirable prime minister. "I tried to be prime minister in his place ... he beat me. I work with him, he's very good at it," Mr Hurd said on LWT's *Jonathan Dimbleby* programme. "The other thing I know is that he's more popular than his party."

Several prominent backbenchers said they were not aware of a campaign by disgruntled colleagues to force the prime minister out by calling for a leadership contest. They also dismissed the idea that Mrs Gillian Shephard, education secretary, had indicated she was prepared to run in a leadership race.

However some MPs said Mr Major's much-vaunted relaunch at a mini-conference last weekend had failed to address core problems.

Mr William Cash, a leading Euro-sceptical MP, suggested Mr Major was wrong in pointing to divisions over Europe as the reason for the electoral debacle.

"You win elections by having policies that command support of the public," Mr Cash said. "It's quite clear that at the moment we don't."

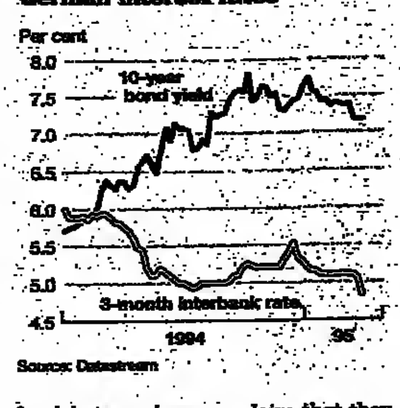
THE LEX COLUMN

Timing the turn

Sensible bond investors show no sign of leaving the shelter of the German bund market. Their caution could well pay off. The strength of the D-Mark has already caused a downward revision of economic growth forecasts. On reflection, the market has decided that the half-point cut in the discount rate last month was not merely opportunistic. The Bundesbank has not lost credibility: rates are still expected to rise from now, but more slowly than seemed likely at the start of the year. The bond market is also supported by technical factors. Given the very steep yield curve, domestic investors have a strong incentive to keep their money in bonds, rather than put it on deposit. Foreign investors will stay put in the expectation of further currency strength. Any fresh inflow of funds into bonds will cause the German yield curve to flatten.

The key decision for bond fund managers will be when to switch from Germany to the US in order to gain maximum benefit from the turn in the US economic cycle, soft landing or not. US bond yields have fallen by 1 percentage point since the autumn, but could soon stall. The economy continues to expand. But traders will be on the alert for signs that the US economy is at last peaking. An early move could prove dangerous: the dollar may have further to fall. Some chartists believe that it will bottom out at DM1.25, which would be a historic low, 12 pfennigs below its current level. But investors who time their shift to coincide with both the second stage of the bond market rally and the turnaround in the currency will enjoy a double whammy.

German interest rates



Source: Datastream

UK Insurers

The UK's composite insurance companies have enjoyed a welcome, if modest burst of outperformance this year: after a dreadful 1994, they are up 7 per cent against the market so far in 1995. This is chiefly a reflection of improved conditions in US equity and bond markets, coupled with sterling's weakness, which together have fed through to higher net asset values for the composites.

The outperformance owes nothing to the recently reported record UK underwriting profits. If anything, the luxuriant domestic profits disconcert rather than impress investors. They suggest that the notoriously cyclical insurance industry is at its peak, and that profits are set to decline in the years ahead. How steeply is a matter for debate, as insurers claim that they are behaving more responsibly in setting premium rates than in the run-up to the last savage downturn. But there is little doubt that the cycle is turning, and that the individual companies' exposure to non-UK markets will prove vital in determining their overall profitability.

In this context, Royal Insurance and Commercial Union look the most appealing investments. Royal looks undervalued by a number of criteria relative to its peers and is set to enjoy a turnaround in profitability in the US. CU is already highly rated, but justifiably so in the context of a defensive mix of businesses. All composites are highly geared to improvements in their net asset values, and the sector should outperform in line with any revival in world investment markets.

Derivatives accounting

It is rare that German institutions create new standards of financial disclosure, but this is indeed what Deutsche Bank did recently with its decision to publish a figure for "money at risk" or "value at risk" on its derivatives portfolio. The bank's money at risk crystallised at DM131m ($93.5m) at the end of last year, compared to a nominal valne for the derivatives portfolio of several trillion D-Marks.

The technique rests on a statistical analysis of a portfolio's past price volatility, coupled with a look at the correlations in price movement between different instruments within the portfolio. It enables a bank to say that there is a 95 per cent chance of a loss being smaller than a given amount – the value at risk – on any one day. The methodology is increasingly used internally by financial institutions as a way of measuring and controlling risks, but has rarely been made use of by banks when they provide accounting information about their derivatives portfolios. This is perhaps because the bodies in charge of setting accounting rules in the US and the UK have yet to come up with standards for derivatives, though the US Financial Accounting Standards Board encourages such disclosure.

Deutsche should be applauded for its move, with the caveat that the figure it provided was not particularly meaningful. Analysts would like to know how the money at risk position fluctuated throughout the year, and how it coped with conditions of extreme volatility. But some disclosure is better than none.

Italian takeovers

The most fundamental requirement of any securities regulations must be transparency, but Italy's takeover laws are worded so as to mean all things to all men. It is therefore welcome that Consob, the securities watchdog, is seeking wholesale changes. There have been $4.4bn (£2.7bn) of bids since takeover laws were introduced in 1992, but these have shown up ludicrous inconsistencies in the regulations.

For a start, Consob needs to set a fixed trigger point at which takeovers become mandatory, rather than the current confusing system of different levels for different companies. It should remove the bizarre restrictions on counter-bids, and instead set a time limit within which such bids can be made. But most importantly, it must provide a clear definition of what constitutes a concert party. Mediobanca, the powerful Milanese merchant bank, has been able to exercise enormous influence on the stock market through small shareholdings in companies where it is backed up by a network of friendly investors. If such groupings conspire to take control of companies, then they should pay all minority shareholders for that right.

Given Prime Minister Lamberto Dini's tenuous grip on power, such reforms may be low on the political agenda. But there is considerable incentive for change. The current system encourages an incestuous network of cross shareholdings which impede the creation of shareholder value. Furthermore, Mr Dini's ambitious privatisation programme will require substantial overseas capital. Establishing greater transparency will help this process.

EU currency

Continued from Page 1

single currency the Ecu, because the present Ecu has been losing its value steadily against the D-Mark.

Mr Kenneth Clarke, Britain's chancellor of the exchequer, said it would take years before the European public starting using the Euro-coinage. But he left open whether Britain would exercise its treaty opt-out in 1999, and pledged to play a constructive role in technical preparations for Emu.

Japanese local elections

Continued from Page 1

Keidanren business federation, called on political parties to take the outcome seriously and seek to regain public trust.

Yesterday's result suggests that Japan's political upheavals may not be over. Last June's arrival of a coalition government had appeared to mark a pause in the dismantling of the collusive old power structure.

The SDP's supporters had been expected to punish it for abandoning nearly all its traditional policies so as to hold power with the LDP. The opposition NFP was also expected to have a struggle because of its inability to produce independent policies. But few people had imagined that both Tokyo and Osaka would fall to independents.

Even before yesterday's setback, senior members of Komeito, the clean government party, one of the NFP's two most valuable financial and political assets, were hinting that they might split if the going got too rough.

FT WEATHER GUIDE

Europe today

Most of the UK and Ireland will be dry and sunny because of high pressure. Afternoon temperatures will be around 13C-15C.

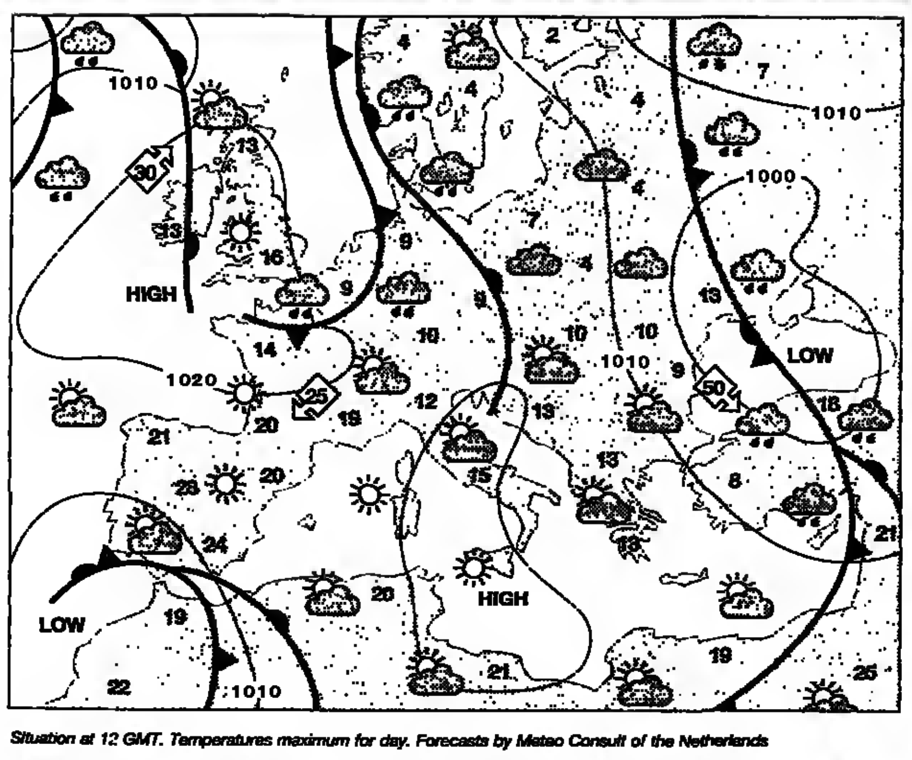
Parts of Germany, the Lowlands, north-east France and the Alps will have rain later today as a small depression moves south-east from northern Germany.

France will be mostly very sunny with maximum temperatures above 20C in the south. Spain and Portugal will remain sunny and dry.

Cool air will flow over Romania and Bulgaria into the eastern Mediterranean Sea causing showers in Greece. Some showers will also reach the northern coast of Libya and Egypt.

Five-day forecast

The UK will be dry and calm for most of the week as high pressure settles over the country. Cloud and rain will persist in southern Germany and the northern Alps. A low developing over northern Tunisia will move east, causing heavy rain in southern Italy, southern Greece, Crete and western Turkey during the second half of the week.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum	Beijing	fair	13	Caracas	fair	29
		Celsius	Belfast	fair	14	Cardiff	sun	15
Abu Dhabi	sun	30	Belgrade	cloudy	11	Casablanca	shower	22
Accra	cloudy	33	Berlin	rain	8	Chicago	shower	8
Algiers	sun	22	Bermuda	fair	23	Cologne	rain	11
Amsterdam	rain	11	Bogota	cloudy	18	Dakar	fair	25
Athens	shower	15	Bombay	fair	32	Dallas	fair	26
Atlanta	fair	27	Brussels	rain	11	Delhi	fair	35
B. Aires	shower	22	Budapest	cloudy	10	Dubai	sun	30
B.ham	sun	15	C.hagen	fair	7	Dublin	fair	14
Bangkok	fair	36	Cairo	fair	25	Dubrovnik	fair	13
Barcelona	sun	19	Cape Town	fair	24	Edinburgh	fair	13

Faro	sun	24	Madrid	sun	27	Rangoon	fair	34
Frankfurt	rain	11	Majorca	sun	20	Reykjavik	rain	8
Geneva	fair	15	Malta	sun	17	Rio	fair	25
Gibraltar	sun	18	Manchester	fair	15	Rome	fair	16
Glasgow	fair	14	Manila	cloudy	33	S. Frsco	sun	18
Hamburg	rain	9	Melbourne	cloudy	17	Seoul	fair	17
Helsinki	cloudy	2	Mexico City	fair	26	Singapore	cloudy	32
Hong Kong	fair	26	Miami	fair	29	Stockholm	fair	5
Honolulu	fair	28	Milan	cloudy	17	Strasbourg	rain	11
Istanbul	rain	8	Montreal	fair	7	Sydney	fair	23
Jakarta	fair	31	Moscow	rain	8	Tangier	sun	25
Jersey	fair	11	Munich	cloudy	8	Tel Aviv	fair	22
Karachi	fair	31	Nairobi	fair	30	Tokyo	fair	18
Kuwait	sun	29	Naples	fair	15	Toronto	shower	6
L. Angeles	sun	23	Nassau	shower	29	Vancouver	shower	13
Las Palmas	shower	23	New York	shower	12	Venice	fair	14
Lima	cloudy	28	Nice	sun	17	Vienna	cloudy	12
Lisbon	sun	27	Nicosia	rain	19	Warsaw	drzzl	5
London	cloudy	15	Oslo	fair	8	Washington	fair	21
Lux.bourg	rain	8	Paris	cloudy	14	Wellington	fair	17
Lyon	fair	15	Perth	fair	29	Winnipeg	fair	8
Madeira	shower	21	Prague	rain	8	Zurich	rain	10

هكذا من الأصل

FINANCIAL TIMES SURVEY

A 14-page study of business, industry, nationalism and culture in Yeltsin's Russia

RUSSIA

Monday April 10 1995

Capitalism exposes the poverty gap

The deepening chasm between rich and poor is rapidly becoming the hottest political issue in post-Communist Russia, writes **Chrystia Freeland**

The annual convulsions which Russia has experienced since the collapse of communism – a gun-fight between parliament and president in 1993, the crash of the rouble in 1994, the war in Chechnya which inaugurated 1995 – should not be allowed to obscure the underlying fact that capitalism has arrived. Just as the old regime stamped its presence on the Moscow skyline with seven imposing Soviet skyscrapers, the invisible hand of the new order has already begun to erect its own monuments.

One of them is the refurbished Radisson Slavyanskaya Hotel, which trumpets Russia's plunge into the market economy with a fleet of cream-coloured Mercedes in its driveway and glittering boutiques selling $2,000 dresses inside its marble arcade. But, less than 50 metres from the Radisson's heavily guarded, iron gates, the dark and fetid Kievsky Vokzal, one of Moscow's principal train stations, insistently announces the other face of the new Russia.

Among the station's denizens are hordes of thieving children, whose mugging technique – they swarm around their chosen victim, sometimes pushing him to the ground but almost invariably seizing his wallet – is most lucratively practised on hotel guests who have naively chosen to walk to their destination.

Western cities like New York are rich with their own versions of the contrast between the Radisson and the Kievsky Vokzal, but Russia has not experienced this sort of stark material contrast since the 1920s, when tha Bolshevik regime briefly flirted with a down-sized model of capitalism.

The growing distance between rich and poor is also more shocking to Russian eyes than western ones because it has replaced a communist order in which the currency of social status was political power rather than money and the elites were careful to mask their privilege with paeans to the virtues of the working class.

For these reasons, the increasingly deep divide between the winners and the losers created over the past three years by Russia's traumatic economic and political transformation is emerging as the most important underlying factor in the country's struggle to determine how to move forward.

It will determine the results of scheduled parliamentary and presidential elections, it is the subtext of the looming political struggle to pnsh through an austere stabilisation programme and it is the catalyst of an intensifying battle among Russia's elites to emerge on the winning side of the country's second economic redistribution in this century.

The starting gun for the race to power in the new Russia was the far-reaching mass privatisation campaign launched in 1993 by Mr Anatoli Chubais, now tha leading standard-bearer of market reforms in the Russian cabinet.

The government's political opponents argue that Russia's fast and dirty privatisation, which has already transferred a dizzying 60 per cent of the economy into private hands, was unfair and failed to create effective new private managers. But members of the government reform team which spearheaded the privatisation drive are unrepentant.

"They say that property was sold off too cheaply in Russia and that as a result there has been no real investment in our Industry," says Mr Alfred Koch, deputy head of the State Privatisation Agency, the state body which led the privatisation programme. "But in an impoverisbed country, bow could we have sold assets off dearly? Had we set high prices, we would have had no western *investments* at all."

Mr Koch insists that, whatever defects there are in the details, mass privatisatioo has accomplished the broad task of bringing private property to Russia. "Today we have a different landscape in Russia and are ready for the next stage," he says.

That different landscape, where tha contrast between the Radisson and the Kievsky Vokzal has replaced the drab superficial uniformity of communism, is the setting for a struggle of brutal intensity to decide who will come out on top in the new Russia.

One group of participants in thet struggle is that section of the old elite which, together with a few particularly savvy arrivistes, managed to transform its old forms of privilege into new ones. But the new redistribution of resources is incomplete, and some sections of the old elite, weakened but not destroyed by the transformation, are fighting for a place in the new order.

As Evgeni Kisiliev, Russia's most prominent television pundit, puts it, some figures in the old regime have experienced a devastating "fall from Olympus". That trauma, he says, has provoked "a battle between the oil and gas sector and the banking sector against tbe agrarian and defence lobbies". Mr Kisiliev describes this conflict between the winners and the losers of Russia's transformation as "an effort to exact revenge, led by the most conservative part of the old establishment, the military industrial complex".

Occasionally, this subterranean conflict bubbles to the surface with a violence which reminds bystanders just how high the stakes in the new Russia are. Gang-land style assassinations, of bankers, politicians, and most recently of one of Russia's most beloved television personalities, are bloody testimony to the fact that Russia is now absorbed in a strategic competition to determine which families will be rich and which families will be poor for a very long time to come.

This fundamental powar struggle is likely to be the subtext of the two public contests Russia faces this year: the government's effort to push through its austere stabilisation programme and parliamentary and presidential elections scheduled to take place over the next 15 months.

In many respects this third government effort to stabilise the economy and bring down inflation from the dizzying rate of nearly 18 per cent a month reported in January by state statisticians appears to have brighter prospects than the two unsuccessful previous attempts.

"The general ontlook in Russia is better than it has been at any time since the reform began," argues Mr Richard Layard, a professor at the London School of Economics and Political Science. "We can indeed expect the beginning of an investment boom fairly soon."

There are some compelling reasons to believe that, as Russia's president and prime minister passionately insist, 1995 will be the year of Russia's long-awaited economic turnaround. One is that all of the key government officials, including Russia's tough new central banker, wbose predecessor bears much of the responsibility for the failure of last year's programme, have expressed a public and categorical commitment to the ambitious goal of bringing inflation down to 1 per cent a month by the end of this year.

Moreover, the International Monetary Fund has given Russia its seal of approval and is expected to come through this month with the first tranche of a $6.4bn standby loan that should belp the government to bridge its budget deficit. The fund, which is doling out the money in monthly allotments and has established a strict set of performance criteria, could act as an important source of external discipline.

A third factor favouring this year's stabilisation programme is the underlying economic transformation wbicb the country has undergone over the past three years. More than half of the ecooomy is in private hands, a capital market in both equities and debt has been created and industrial production, which has been falling with depressing predictability at an annual rate of at least 20 per cent, now appears to be stabilising.

But there is also cause for pessimism. After two failed attempts to bring down inflation by staunching the flow of roubles to agriculture and industry, the government suffers a serious credibility problem.

As Mr Sergei Aleksashenko, a leading reformer who resigned from his post as deputy minister of finance last month, points out "this is Mr Chernomyrdin's third attempt and each time we try to stabilise it becomes more and more difficult".

The widely held scepticism inspired by the government's

Continued on next page

For poorer and for richer: a homeless diner in a Moscow soup kitchen...

...and youthful patrons of the Bolshoi ballet Financial Times pictures

IN THIS SURVEY

Editorial production: Maurice Samuelson
Design: Robin Coles
Graphics: Robert Hutchison

Poverty gap is growing wider

Continued from previous page
flawed track record is captured in a Russian version of Murphy's Law: "We wanted things to turn out for the best, but instead they turned out as they always do." This phrase was coined by Prime Minister Victor Chernomyrdin in an effort to explain the crash of the rouble last autumn and among Moscow bankers and civil servants it is now wryly recited as "The First Rule of Chernomyrdin".

The danger is that the Russian business community's lack of faith in the government will become a self-fulfilling prophecy by breeding inflationary expectations and renewed demands for state subsidies. The toughest test of the Kremlin's nerve is expected to come over the summer, when the agricultural lobby's already vocal demands for increased state support are likely to become even more strident.

Furthermore, just as in the dying days of the Soviet Union federal macro-economic policy was sabotaged wheo republics began to issue roubles without Moscow's authorisation, Russia's national stabilisation programme could be jeopardised by the increasingly popular practice of regional administrations to issue local promissory notes which act as surrogate roubles.

As Mr Aleksashenko observes, Russia is caught in a classic contradiction between the general interests of the country and the self-interest of regions, factories and farms. "Stabilisation is in everyone's interests," Mr Aleksashenko says. "The problem is that no one wants to pay for it."

But the greatest threat to the government's stabilisation programme could be posed by parliamentary elections scheduled for December, 1995 and a presidential vote, due to be held in June next year. Even Mr Cheroomyrdin has admitted that the need to woo voters could push parliamentarians and politicians in the government off the tougb fiscal and mooetary course they have chosen.

Leading Russian bankers with close connections to the Kremlin have gone even further. Fearing, as do most observers, that widespread public disgruntlement with Russia's traumatic political and economic upheaval will produce a communist and oatiooalist landslide at the polls, many Muscovite bankers have begun to call for elections to be postponed.

As Mr Oleg Boyko, head of the Olbi banking and retail group, puts it, "it is a well known phenomenon that in emerging economies during the second year of reform you have popular disillusionment". For this reason, Mr Boyko believes that the scheduled elections will produce "a much worse parliament and a worse president" and should be put off for a couple of years.

The growing tension between continued market reforms and democracy has been disappointing for many of the pioneers of Russian reforms. When communism crumbled in late 1991, liberal reformers moved into the Kremlin confident that their twin goals of bringing democracy and a market economy to Russia were symbiotically connected. Three years later, the outlook is more pessimistic.

Mr Aleksashenko, whose own decision to leave the government is one of the many small signs that Russia's brief epoch of liberalism is drawing to a close, says: "When I came into the government we understood that democracy cannot exist without a market economy and so we tried to build both." But, he adds, "I have

Some westerners predict the emergence of corporate fascism

now realised that a market economy can exist without democracy, that it is possible, that that is what Russia will have."

As an opeo political opponent of the current government, Mr Grigory Yavlinsky, a leading liberal politician, is even more critical. "We are at a crossroads right oow," he argues. "Either we move towards a monopolistic, oligarchic economy or towards western style capitalism."

For the short-term, many western observers are pessimistic about which of these two paths Russia will take. Dr Sarah Mendelson, a programme officer at the Moscow office of the National Democratic Institute which is advising Russian democrats on party building, worries that "we could be seeing the emergence of corporate fascism".

A senior official at a western financial institution in Moscow agrees. "Russia is likely to evolve into an authoritarian regime with ecooomic policy pre-arranged in the back rooms," he says. "I see a system emerging in which you have a secret politburo with representatives of the energy sector, the defence sector and agriculture. Economically, this arrangement could work and politically it is compatible with the desire for formal democracy but tolerance in practice of an authoritarian style of governance."

The emergence of a mildly authoritarian Russia, in which big business and government are locked in a mutually beneficial and somewhat corrupt relationship and the state ruthlessly cracks down on dissenting voices, as it has done in Chechnya, must, in historical perspective, count as progress.

Mr Jonathan Hoffmann, international economist at Crédit Suisse First Boston, says: "Nobody promises an easy ride. Russia, unlike any nation this century, faces the collapse of empire, the collapse of ideology, the collapse of political institutions, and the collapse of the economy. But through it all, one is going to see the economy transformed and that's going to continue."

From a western perspective, Russia's enormous, and very nearly irreversible, economic transition is the most important feature of the new Russia, and a convincing counter-argument to the doomsday scenarios which Russia's sporadic political upheavals can inspire. But for many of Rnssia's long-suffering citizens, who lived for more than 70 years with the promise that a perfect communist society was "on the horizon," this long term view is less consoling.

"When people ask me what will happen, I always say that in 20 years it will be all right," says Mr Aleksasbenko. "But, unfortunately for me, I live in this country and my family lives here, so I cannot be indifferent about what happens in the next year or two."

☐ TIPS FOR UNWARY TRAVELLERS

Red tape is forever

Businessmen travelling to Moscow in the new, capitalist Russia should be prepared for an early initiation into one of the most unpleasant legacies of the nld regime: a tough visa system and an international airport tn match, writes CHRYSTIA FREELAND.

While nld Russia hands may be quick to point nnt that getting a visa to Russia is much easier than it used to be, that will be cold comfort to business travellers who can expect to be forced through awkward hoops by the Russian consulate.

If you are travelling as an invited guest of a Russian-based organisation, leave at least 10 days for your invitation to come through from Moscow and your visa application to be processed. For a fee, travel agencies nr services which specialise in obtaining visas can often secure visas much mnre quickly, sometimes even overnight, and, at a higher price, some Russian embassies will process business visas within 48 hours.

Having obtained a visa, the next ordeal is Moscow's Sheremetyevo Airport. The half dozen shops which have been set up in the airport over the past few years are not enough to neutralise the oppressive darkness of its main halls or the surliness of the passport and customs officials.

Russians have two strategies to cope with their home-grown bureaucrats, and western business travellers have yet to come up with any alternatives. The technique is either to endure the two long queues at Sheremetyevo with stoic resignation, or, by dint of an aggressive application of elbows, to push to the head of the qneue and insist on quicker service.

It is useful to travel to Moscow with a small sum of roubles (about five dollars worth, or 20,000 roubles, at current exchange rates) hecause haggage trolleys must be rented and, depending oo their mood, the clerks sometimes refuse dollars.

It is also vital to keep the customs declaration you will be required to fill out in a safe place because leaving the country without it can sometimes be very difficult. That is why travellers shnuld strongly resist the recent disinclination of customs officials to stamp forms for visitors bringing in very little hard currency. The official you encounter on your way out of the country could be less blasé.

The trauma of arriving at Sheremetyevo is reason enough to arrange to be met on the other side of the customs barrier. But, for visitors whn do not speak Russian, trying to catch a taxi from the airport can be difficult, pricey, and dangerous.

Happily, for visitors who have survived the trials nf arrival, the new Russia's capital city now boasts services for business travellers approaching western standards. The city has a number of lavishly appointed western-managed hotels, thnugh their exorbitant prices are likely to persuade business travellers of the justice of the federal government's political crusade against Mr Yuri Luzhkov, the powerful mayor of Moscow, whose strangle-hold over the city's real estate has pushed rates up to New York levels.

The Kempinski (tel 7-095-230-6500, D-Marks520 per night plus tax), which looks out across the Moskva river on to the Kremlin, and the Metropol (tel 7-095-927-6000, $340 per night plus tax), a five minute walk from Red Square, are the two grandest and most comfortable options in downtown Moscow. Both also have good restaurants, which can save visitors from the sometimes daunting prospect of a night-time foray into the city in search of food.

The Canadian-run Aerostar (tel 7-095-213-9000) has less marble and fewer chandeliers and its location 20 minutes drive from the centre of the city is less convenient, but, at $230 a night plus tax, its clean rooms and efficient service are what passes for a bargain in Moscow.

Over the past couple of years dozens of passably good restaurants have also sprung up in Moscow. Appropriately for a city whose elite is the most nouveaux of the world's riches, Moscow is now in the throes of the Tex Mex craze which became trendy in America in the mid 1980s.

Santa Fe, close to the now refurbished White House, is a Muscovite favourite which offers the standard Tex Mex options: quesadillas, fajitas, barbecued ribs, and all manner of "blackened" meats. What the menu may lack in creativity is more than made up for by the thigh grazing skirts, navel-baring cropped tops and stiletto heels of the girl-friends whn come to Santa Fe to see and be seen.

A less flashy option is Azteca, on Nnvoslobodskaya ulitsa just off the ring road. Azteca serves inexpensive and huge portions of the best Mexican food in town. The casual atmosphere can be a welcome relief from the fiercely glittering clientèle of many of Moscow's better restaurants, but a Peruvian band which plays with more zeal than finesse can make conversation difficult.

For a good meal in a subdued environment, go to Uncle Gully's (tel 7-095-229-2050). Hidden away in basement off a quiet street in the centre of the city, Uncle Gully's is nne of Moscow's best kept secrets. The locked doors of the restaurant only swing open to admit customers whn have made reservations by telephone, but inside waiters serve Moscow's best steaks.

Russian speakers with a keen ear often have the added opportunity of picking np stock tips from the Moscow businessmen who are the restaurant's most frequent diners. The sirloin steaks might even make you temporarily forget that you have to pass back through Sheremetyevo in order to get home.

هكذا من الأصل

Neil Buckley describes the exuberant expansion of the liberated retail sector

Consumers know what they want

Buying Tesco cornflakes for roubles in the shadow of the Lubyanka, Moscow's once feared KGB headquarters and prison, is no longer a fanciful dream. While the KGB is now the Federal Counter-Intelligence Service, its neighbouring foodstore has been transformed into Seventh Continent, a supermarket selling everything from Haagen Dazs ice cream to own-brand groceries supplied by Britain's second-largest food retailer.

A short distance away, window displays from Yves Rocher and Nina Ricci already line Tverskaya (formerly Gorky) Street, and a giant excavation in Manezh Square, next to the Kremlin, will by 1997 be a six-storey underground shopping centre.

The Soviet Union was famous for its dreary and empty shops. Retailers had no need to compete for customers, existing merely to distribute the insufficient and poor-quality products of the planned economy at controlled prices. But while the likes of Seventh Continent and Christian Dior remain largely the preserve of the new rich and foreigners, Russian shops everywhere are smartening up, and filling up – often with imported goods previously unknown to Russians – under the influence of privatisation and liberalisation of foreign trade.

Russia's exports fell from $69bn to $48bn last year, but imports rose from $27bn to $28bn, of which consumer goods accounted for 50 per cent – up from 35 per cent in 1992. A survey by Russian research group Business Analytica found 70 per cent of foodstuffs in Moscow shops was imported, and 35 per cent in other cities.

"Selling imported goods is seen by Russian firms today as a more profitable proposition than selling domestic products, let alone promoting their own reasonably competitive production," says Mr Andrei Sterlin, Business Analytica's chairman.

With prices for imported goods often 30 per cent or more higher than in the west, life is still tough for Russians on the average wage of less than $100 a month. But the queues and the shortages – which represented a form of opportunity cost for consumers – have largely gone. Business Analytica found that a complete basket of basic foodstuffs was available in only 57 per cent of 132 cities surveyed in February 1993, but in 82 per cent a year later. For non-food products, the proportion rose from 76 to 90 per cent.

Moreover, official statistics can be misleading as many Russians have more than one job, and tax, rent and other costs account for a lower proportion of Russian incomes than in the west. If real incomes grow as forecast in the second half of the 1990s, more and more Russians should be able to take advantage of the improving choice and quality in consumer goods.

Several factors are bringing about the consumer revolution. Privatisation of 95 per cent of Russia's 350,000 shops means they are no longer limited to selling certain goods supplied by designated state wholesalers. They compete freely, choosing their own product categories, and sourcing from a variety of wholesalers and factories.

"Russian stores are learning retail skills quickly," says Mr Steve Williams, vice-president for Russia of Radio Shack, the US electrical retailer with three shops in Moscow and plans for franchises in other Russian cities. "A year ago shop fronts said 'Shop' or 'Food'. Now you see real window displays and advertising."

Alongside privatised shops, a network of about 75,000 privately-owned street kiosks has emerged, selling everything from pet food to compact discs.

Mr Charbel Ackermann, vice-president of Boston Consulting Group in Moscow, says much retail expertise resides in these kiosks, which can achieve a turnover of $100,000 a year, as much as Russian shops 10 times their size.

"Chains are now emerging in kiosks," he says. "It may be that from these will emerge retail chains of the future."

Liberalisation of foreign trade in 1992 helped transform the consumer market by allowing the formation of powerful new wholesalers, both former state enterprises and private companies.

In Moscow, groups such as Olbi, Kentavr, Vitex and Mikrodin already dominate the market and are starting to develop their own storage and transportation facilities to replace the old, creaking state distribution system. Regional groups are also emerging, sourcing some products through Moscow groups, and some direct from manufacturers. Wholesalers such as Olbi and Unikor have opened their own retail outlets, which might also become Russian retail chains.

Moreover, the world's largest consumer goods companies are starting to arrive in Russia. Some, such as Grand Metropolitan, Wella, and Campofrio, have formed joint ventures to market and distribute their goods. Others, including Mars, Nestlé, Procter & Gamble, Danone, Coca-Cola, BAT Industries and Philip Morris, are acquiring or building local manufacturing capacity. Most are advertising heavily.

Mr Fernando Cabrera, who moved from Ecuador to head Colgate Palmolive's marketing in Moscow, likens the situation in Russia – high inflation and political instability, distribution problems, but a market hungry for consumer brands – to that in south America five years ago.

"The major multinationals all dealt with the same situation in Latin America. There is a huge cake in Russia, and it is just a matter of getting organised to get a piece of it."

Retailers such as fashion groups Benetton and Escada, Computerland of the US, Julius Meinl, the Austrian supermarket group, and McDonald's, the US fast food chain, are also expanding in Russia, and a recent report by Healey & Baker, the international property agents, identified significant opportunities for retailers and developers.*

Russia has only one-third of the retail space per capita of western European countries, with a particular shortage of small-medium sized food stores, and district and neighbourhood shopping centres. While GUM, the former state department store alongside Moscow's Red Square is seeking funding and approval for a $300m refurbishment to turn it into one of the world's great shopping centres, Healey and Baker identifies the need for more purpose-built shopping centres in central Moscow.

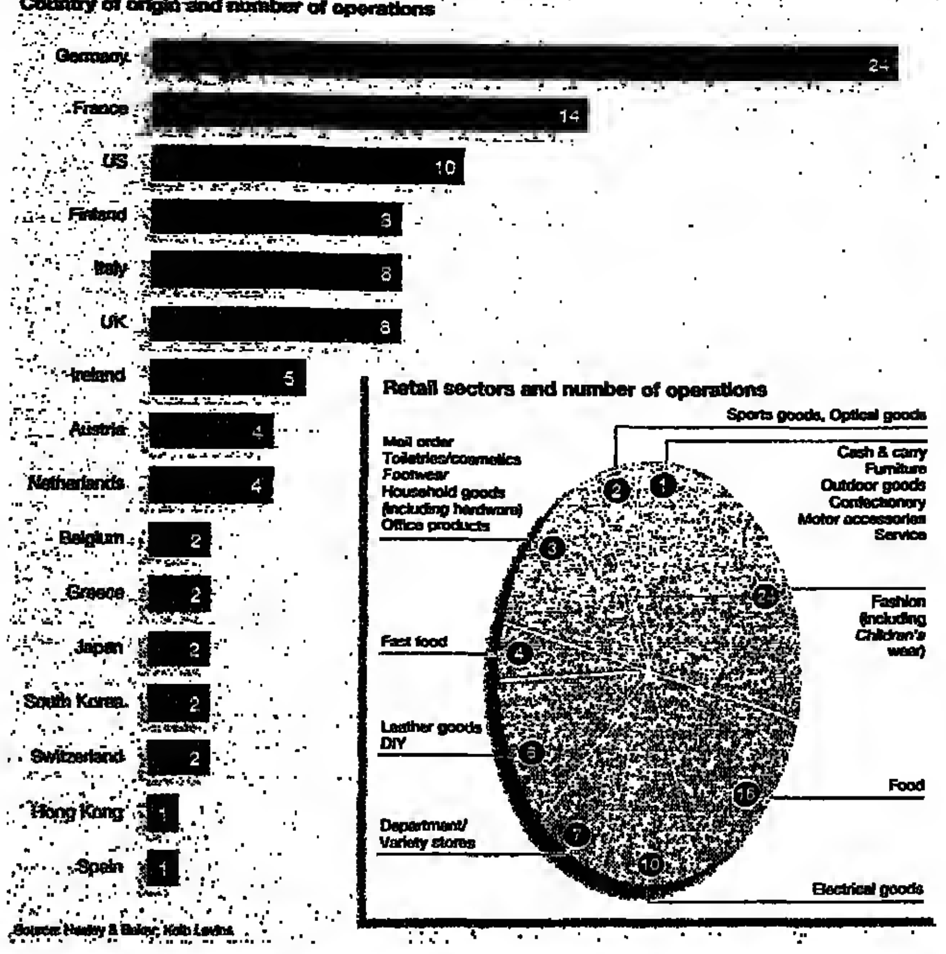
"As there is little in the way of a recognisable market in most retail sectors, the opportunity exists to shape the market and the consumer before they exist," the agency says. "The potential to dominate in the early stages of the emergence of markets is vast."

* *Retail: A Report on the Market in Moscow. Healey & Baker, 29 George St, Hanover Sq, London W1. +44 171 355 4299*

A Moscow video dealer collects his stock for sale in the suburbs

Foreign retailers in Russia, 1995

Country of origin and number of operations



Source: Healey & Baker; Kolb Lavina

RUSSIA 4

The new banking system shows flair, courage and a streak of criminality, says **John Thornhill**

A game with insufficient rules

Russia's banking industry, which has rapidly emerged as one of the most dynamic sectors of the economy, exemplifies both the best and the worst aspects of the country's capitalist transformation.

Russia's new generation of youthful bankers has shown remarkable entrepreneurial spirit and an astonishing ability to experiment and adapt. Conversely, Russia's banks also suffer from speculative short-term thinking, a lack of effective regulation and a pervasive streak of criminality and corruption. The brutal contract killings of leading bankers are still a depressing feature of Russian life.

When the banking regulations were relaxed four years ago at the start of Russia's economic liberalisation, there was an explosion of activity: some 2,500 banks are now officially registered in Russia – approximately one quarter of the number in the US. The vast majority of the biggest banks are clustered in Moscow with regional banks being a lot slower to develop. According to the Central Bank, these banks' total assets amount to about $70bn giving them considerable influence in the development of the country's economy.

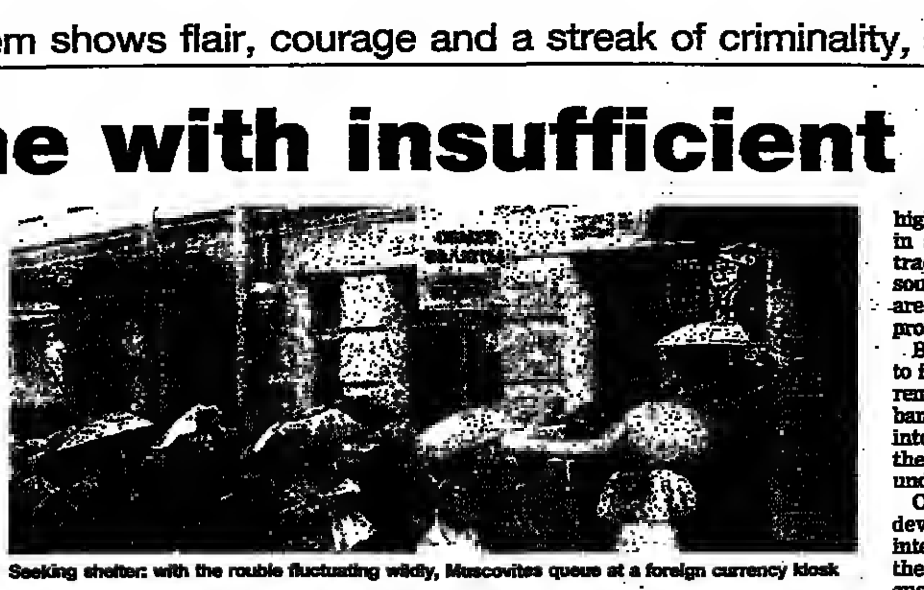
This surge of activity was especially surprising given the primitive nature of banking in the Soviet era when domestic banks were little more than rouble distribution centres. Promstroibank, which had a national chain of branches, simply channelled cash from the central planners to the local industrial enterprises.

Agrobank did much the same for agriculture. The only bank that vaguely resembled a western commercial organisation was Vneshekonombank, the foreign trade bank, which has provided many of the senior staff and technicians for Russia's new commercial banks. The rest of Russia's bankers have had to gain their experience on the job.

Whether by accident or design, the government's highly liberal policy encouraged a thousand flowers to bloom in Russia's financial sector. But it now seems increasingly likely that the stronger flowers will flourish while the weaker ones will wither.

Mrs Alexandra Kozyreva, president of Tveruniversalbank, says: "There are bankruptcies waiting to happen in the Russian banking sector. The big banks will begin to take over the smaller ones."

This consolidation process may be hastened by the fierce competition that is developing among the banks for new business. In an environment in which reputation is all-important given the lack of effective regulation, Russia's more respectable banks may be right in hoping the more dubious elements will lose their custom. The big banks are now the most active buyers of television advertising



Seeking shelter: with the rouble fluctuating wildly, Muscovites queue at a foreign currency kiosk

space blanketing the airwaves with highly-creative, if minimally-informative, advertisements, reinforcing their brand names and threatening to eclipse their smaller rivals.

The Central Bank has also been stepping up its regulatory activities plucking the rankest weeds in the garden. Between January and November last year, the bank withdrew 52 commercial bank licences compared with 19 in 1993.

The Central Bank has also raised the capital adequacy ratios for banks – although they are rapidly eaten away by inflation. Nevertheless, most Russian banks remain chronically under-capitalised with high inflation eating away their reserves.

"The logic of the situation suggests that we should have a banking crisis but intuition and experience suggests that Russia has an extraordinary ability to muddle through," says one banking consultant.

Russia's banks have certainly proved highly flexible and have tended to dabble in a whole range of activities. Currency trading is one of the most profitable sources of revenue and about 100 banks are also active in the treasury bill and promissory note markets.

Banks have also found it very profitable to finance import businesses although this remains inherently risky. But few Russian banks have been prepared to sink money into developing their branch networks and the retail banking remains massivaly underdeveloped.

One of the worst aspects of the banks' development has been the incestuous interconnections that have arisen between the banks' managers, shareholders and customers. "Most Russian banks are owned by their managers and that worries me quite a lot," Mr Andrei Volgin, an investment fund manager, told a recent conference.

Very often Russian banks – such as Aeroflotbank or Avtovazbank – are the financial offshoots of large industrial concerns. In other cases banks have become simply a credit pipeline taking money from the central bank and giving it to their shareholders without any independent scrutiny in-between.

Mr Miljenko Horvat, president of Citibank's Moscow office, says: "These close connections between the banks and the companies in which they invest have to be loosened in order for the banking system to become truly effective."

The best banks are now making strenuous efforts to improve their management systems and are among the biggest buyers of training services from western consulting firms. Russia's bankers are also developing their skills in assessing companies' balance sheets and investment plans so that they can more accurately price long-term loans. The international aid organisations have been keen to help develop such expertise and have targeted banks as one of their priority sectors.

As their riches have grown, Russia's bankers have also started to diversify into other sectors, such as the media. A group of banks, including Menatep and Stolichnyi, is planning to invest in the commercialised Public Russian Television Company, which will succeed the main state television company, Ostankino. The Olbi bank has also acquired a sizeable stake in the *Izvestia* nawspaper and is keen to broaden its media interests.

But the high profile positions adopted by some of Russia's bankers have made them vulnerable to sniping from rival centres of power. The example of Mr Vladimir Gusinsky, head of the Most banking and media empire who has been hounded by the presidential security apparatus, has been a reminder of how banking in Russia is far from just being a financial proposition.

Nervous savers curb the capital markets, says **John Thornhill**

Cash stays under the bed

The government's latest motto is that 1995 must be the bridge year between Russia's inflationary past and its investment future.

An economic stabilisation plan – now backed by the International Monetary Fund – could finally tame inflation thereby building the first half of the bridge.

But the government will still find it hard to cross the financial chasm unless it can encourage the country's private savings to be channelled into the productive economy to re-ignite growth.

There is certainly no shortage of capital in Russia. The government estimates that there is at least $10bn in domestic savings stuffed into biscuit tins and under mattresses waiting for a safer home. The critical question is how to help create effective intermediary institutions to recycle this money to more productive ends.

Russia's banking system has developed at a frantic pace in the past few years but is probably still too under-capitalised and under-managed to be able to channel funds into industry on the scale required to revive the country's manufacturing base. Besides, government ministers fear too close a relationship could develop between the banks and the companies in which they invest producing conflicts of interest, impenetrable nexuses of corporate power and scope for corruption.

Investment and pension funds are also sucking up private capital and investing in industry. Some funds, such as Alpha Capital, are already making direct investments in basic manufacturing plants and showing reasonable returns on their money. But many of Russia's poorly-regulated investment funds are run by unscrupulous managers and have been dogged by scandal. They alone will not transform Russia's finances.

The third possibility is to encourage the development of effective equity and bond markets. That would enable Russia's thousands of privatised but cash-starved companies to raise finance and invest in growth. It would also help develop a shareholder culture imposing an external restraint on managers. Moreover, it would ease the pressure on the government to issue inflationary state credits and enable it to raise money to plug its budget deficit.

Mrs Bella Zlatkis, head of securities at the ministry of finance, says: "We see the development of the government debt market as the most important means for achieving financial stabilisation. We will have a budget deficit of Rbs72,000bn this year of which Rbs31,000bn must be covered by government debt."

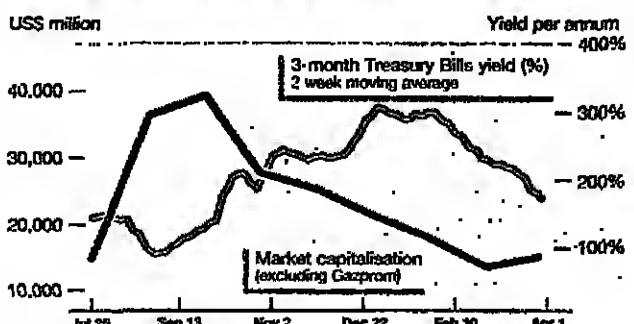
But there are many hurdles to clear before Russia's nascent capital markets are transformed from speculators' playgrounds into effective exchanges in which the demands of lenders and borrowers can be easily satisfied.

Russia's existing markets lack the most basic of infrastructure. Prices quoted by stockbrokers are only indicative, with spreads between the buy and sell prices being as much as 40 per cent. There is almost no liquidity in the shares of many companies. Most reputable stockbrokers will only deal in minimum trades of about $50,000. Newly-bought shares have to be physically written on to a company's register often requiring a personal visit to a remote Siberian town. Even then there is no guarantee that shareholders' names will not be erased.

Last November, a Federal Commission on Securities and Capital Markets was created to bring greater order to Russia's chaotic markets. Its role is to develop the regulatory framework and the infrastructure to ease their operation.

Mr Georg Kjallgren, director of Brunswick Brokerage, a Swedish-owned Moscow-based stockbroker, says: "The commission has basically identified all the main concerns of investors and has an aggressive plan for solving these problems in 1995."

Market capitalisation and Treasury bills



Source: Brunswick Brokerage

Various projects are under way to remedy the difficulties associated with share registration, trading and settlement systems and custodial services and some progress is already being made. The Bank of New York is participating in the creation of an independent share registration system. Chase Manhattan and ING banks are setting up custodial services.

Mr Dmitry Vasiliev, the executive head of the commission, says: "We have to convince the more conservative foreign investors that Russia is a safe market in which to invest their money and increase the contribution from the domestic population."

Although speculative foreign investors may have invested about $1.3bn in Russia's equity market last year, mainstream investors have fought shy of committing more money this year because of the lack of security. "Serious western investors understand the nature of the political and economic risks in Russia but they will not accept a risk to the title of their investment," according to a western fund manager.

But the commission cannot succeed in isolation. Changes to Russia's legal system are urgently required to strengthen the concept of property ownership. Russia's tax regime also needs to be adapted if much-needed mutual and pension funds are to be created as a means of pooling domestic savings.

It will also be a big challenge to change the psychology of investors who have been seduced by the stratospheric returns offered by Russia's get-rich-quick merchants. It will take time for investors to develop trust in a regulatory regime and understand the advantages of receiving smaller but safer returns over a longer period.

Mr Maxim Boiko, the head of the Russian Privatisation Centre, an independent advisory body with close links to government reformers, argues that the human capital must also be upgraded before physical capital can be usefully invested.

He says shareholders have already replaced managers at 10 per cent of privatised companies but that more must be done to develop management "as an art to master and a science to learn".

According to a study made by Mr Andrei Volgin, manager of the Derezhava Investment Fund and chairman of the Moscow Shareholders' Rights Committee, as many as 90 per cent of privatised companies say they do not want to raise additional capital. Such managers prefer simply to maintain control rather than risk expanding their businesses. However, that may make it even easier for Russia's progressive companies to raise capital and more attractive for investors to lend.

■ Foreign investors take stock after the first burst of curiosity

Full potential is still untapped

Foreign investment, like international leisure travel, tends to fall into one of three categories: the adventure, the holiday and the long term stay.

By and large, Russia has so far offered the foreign investor only the first. The financial market equivalent of the hardy back-packer has flown to the country to explore its potential, particularly in the lucrative oil and gas sector of the economy. But, by and large, the mainstream investment houses and corporate direct investors – not to mention a large chunk of Russia's domestic capital – have gone elsewhere.

Optimists believe that things are about to change: that the next 18 months will see Russia finally begin to realise its potential for high-volume portfolio flows and long term direct investment.

Much of the groundwork for this long-awaited explosion has already been laid. But two crucial attributes are missing: a secure legal and regulatory environment and a degree of economic stability.

Foreign portfolio investment in Russia was only $300m in 1993. Inflows surged to around $500m per month last summer after the opening of the Russian stock exchange, but outside investment collapsed towards the end of the year, settling down to an average inflow of $50m per month for the first quarter of 1995.

Just as political and economic uncertainties drove investors out of the market at the turn of the year, the same factors may partly determine whether portfolio inflows pick up again in the months ahead.

In the short term, however, a more important reason for the low level of investor sentiment is the confused state of the legal system. A recent survey of foreign companies, banks and investment houses by economists at the Russian government's centre for economic reform found that the uncertain legal environment was the single largest factor impeding investment.

Emerging market investors are accustomed to making losses on some of their assets – they are less happy about discovering that they never legally owned them.

"Instability is the stock-in-trade of emerging market investment," says Georg Kjallgren, economist at Brunswick Brokerage, in Moscow. "The fact that stock prices are as low as they are shows that something else is going disastrously wrong: namely the whole structure of Russian corporate governance."

Efforts are being made to reform the Russian securities market, in particular the arrangements for the custody of shares. Assuming that at least some of these developments bear fruit, the coming year could indeed see an upturn in portfolio investment.

FOREIGN DIRECT INVESTMENT $m

	Soviet bloc*	Russia
1990	571	–
1991	2,402	100
1992	4,178	800
1993	5,266	1,100
1994	6,000	2,000

*USSR and Communist eastern Europe. Sources: EBRD, UN, Russian Federation government

> One deterrent to investors is confusion over Russian laws concerning ownership

Mr Victor Huaco, president of AIOC Capital, a Moscow-based investment company, believes that custody reform could significantly boost Western involvement in the market in the coming months. But trading will remain very short-term without greater price and exchange rate stability. His company earned attractive returns last year operating in the market for two weeks at a time.

"At this point, I'm comfortable with the currency risks over a two week window. But beyond that it gets scary. When I can do it for three or six months, it will be a whole different ball game."

Direct investors in Russia are likely to wait for evidence of more lasting economic stabilisation. "Sorting out share custody will unlock a wall of money on the portfolio side," says Jonathan Hoffman, an economist at Crédit Suisse First Boston in London. "But as long as we're predicting 150-200 per cent inflation for Russia, and around 20 per cent for a country like Hungary, I don't see many long-term strategic investors beating a path to Russia."

The European Bank for Reconstruction and Development estimates that Russia received a total of $2bn in foreign direct investment over the years 1990-1993, a mere 16 per cent of the total flowing to eastern Europe and the former Soviet Union over the period. This means that accumulated Russian FDI per capita was around $7 in 1993, compared with $214 and $59 per head in Hungary and the Czech republic, respectively.

FDI flows picked up markedly last year. A report published last month by the United Nations found that Russia received 31 per cent of total foreign investment commitments in eastern Europe and the former Soviet Union in 1994. Only Kazakhstan attracted a higher share, of 39 per cent.

Official figures put the year's total inflows at $2bn. Moscow brokers say that another $1bn entered unrecorded. Nevertheless, annual FDI would be closer to $7bn if Russia had attracted even one fifth as much as Hungary on a per capita basis.

Andrei Lushin, economist at the Institute of World Economy and International Relations, frets as much about the quality of FDI as its quantity. "It is true that the official figures do not show the whole picture. But ...most of the country's industrial core is still highly unattractive to outside investors."

Recorded FDI flows – and no doubt many unrecorded ones – have so far been highly concentrated in the Russian energy sector. Many hope that the macroeconomic stabilisation plan hammered out with the International Monetary Fund early last month will lead to a broader range of FDI. However, there is little evidence to support this view.

Days before the agreement was signed, the International Finance Corporation unveiled the largest ever foreign investment in the Russian manufacturing sector: a $150m package for a newsprint plant in Nizhny Novgorod, financed by the IFC in collaboration with private partners.

Yet, fewer than two weeks later, the Swiss-Swedish firm Asea Brown Boveri, hitherto one of the most active foreign investors in Russia, announced it was postponing all its expansion until overall business conditions improved.

Optimists say that ABB, which has quarrelled with the government over certain legislative changes, is a special case. By and large, they remain convinced that, even though it may be a while before Russia emerges as a major recipient of both portfolio and direct capital inflows, recent events have brought that day closer.

For his part Mr Kjallgren believes that rising interest in Russia among portfolio investors is laying the groundwork for future direct investment, in the form of local knowledge and expertise. "You now have maybe 50 or 60 researchers, all looking for Russian companies to invest in," he says.

First, however, the government must show investors that the market can offer a safe return on their assets for more than two weeks at a time.

Stephanie Flanders

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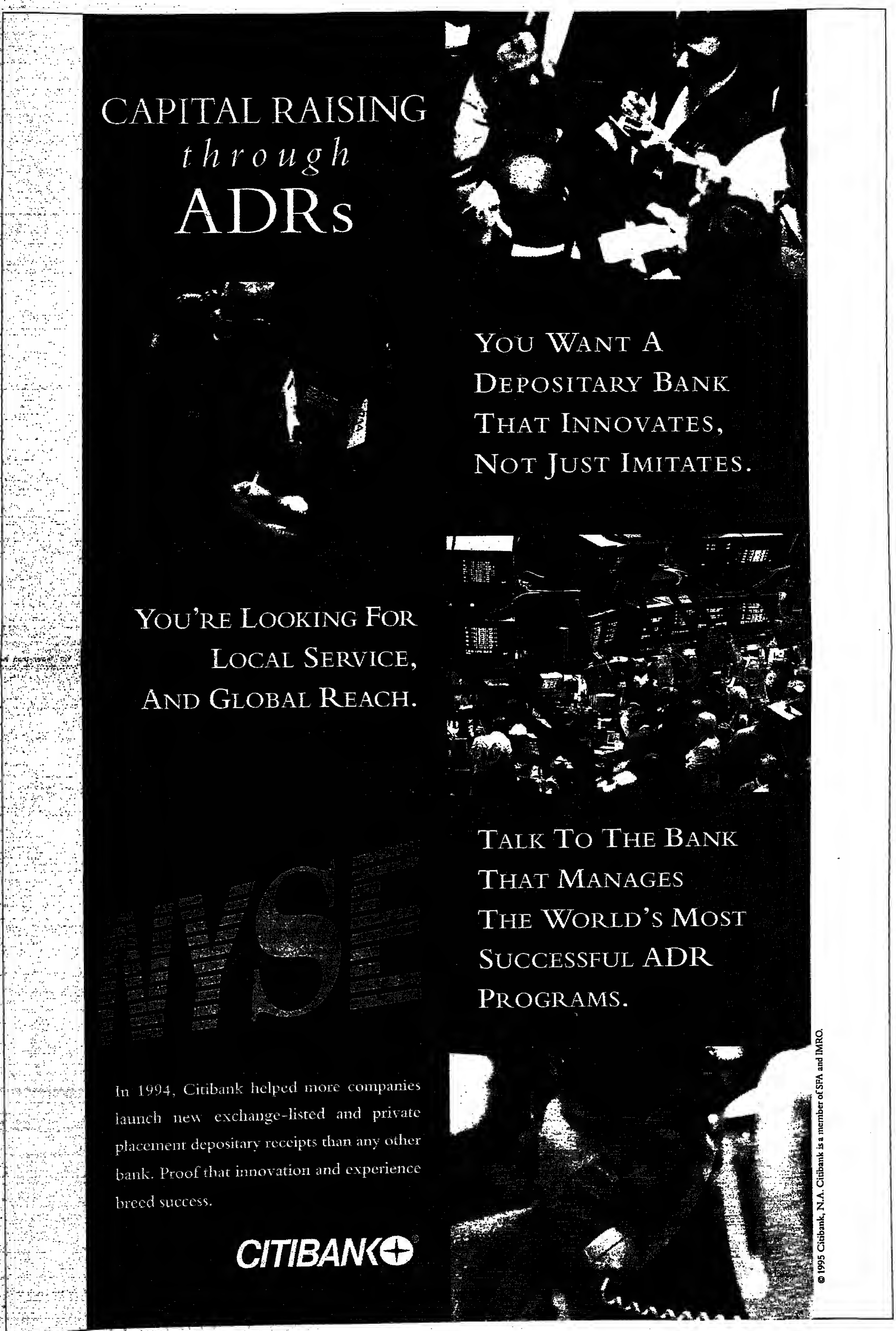
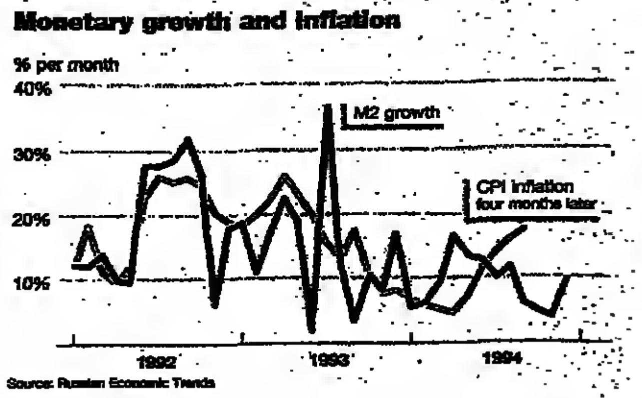
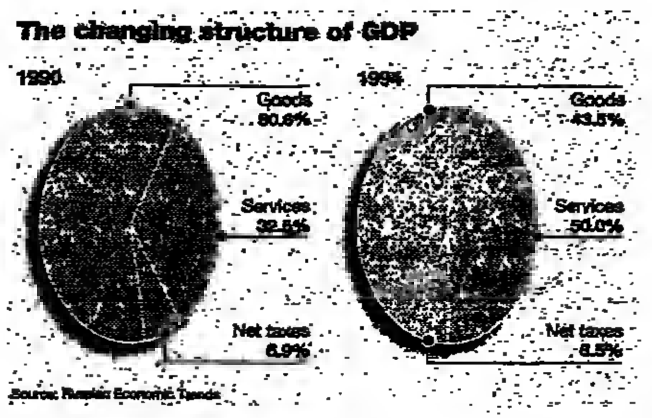


Monetary growth and inflation



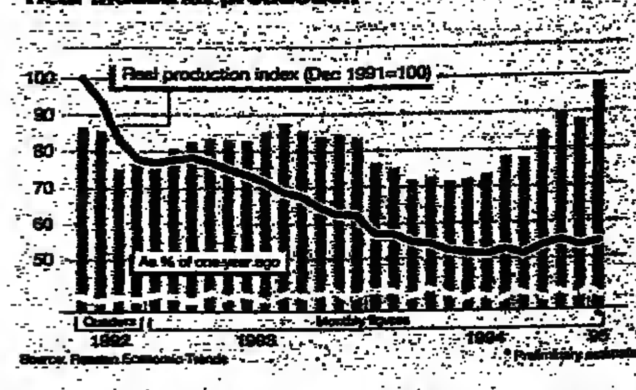
Source: Russian Economic Trends

The changing structure of GDP



Source: Russian Economic Trends

Real industrial production



Source: Russian Economic Trends

The official statistics both underplay and exaggerate the economic successes, writes **Stephanie Flanders**

Reformists aim to be third time lucky

The Russian government's official statistics and legislative decrees paint a picture of the ecooomy which does not match the real-life experiences of the country's population. In certain respects, the "real" Russia has developed further in three and a half years of market reforms than the government claims. In others, however, it has lagged far behind the official rate.

Most damaging has been the gap betweeo the theory and practice of the government'a plans to hring down inflation, and liberalise the economy. This year'a tough budgetary programme will be the clearest test to date of President Boris Yeltsin's willingness to start matching the government's words with its actions.

Officially, Russian real GDP fell by 15 per cent in 1994, ending the year 40 per cent lower than at the eod of 1991. Real Incomes aad coosumption were 30 and 21 per cent lower, respectively, than they were three years ago. Meanwhile, income inequality has increased sharply: the moothly per capita income of the poorest teoth of the population has halved, relative to the richest tenth, since the beginning of 1992. However, few doubt that

In spite of the market reforms, the authorities still fix many consumer and producer prices

the emergeoce of a dynamic service sector, which oow accounts for 50 per ceot of GDP, has counteracted the fall in living standards implied by the data.

The volume of sales in Russia's (mainly unregistered) street markets is estimated to have riseo hy over 20 per cent in 1994 alone.

"The last proper estimate of GDP was in 1992," says Pavel Teplukhin, ecooomist at the governmeot's working centre for ecooomic reform. "The truth is we don't really know what has bappeoed since – anything from 15-20 per cent of the economy probahly goes unrecorded."

The government predicts a further 8-9 per cent decrease in GDP this year, which would be an improvement on last year's fall of 15 per cent. But Mr Teplukhin believes that the economy probably troughed in the latter half of last year, and tbat, unofficially at least, growth may turn slightly positive this year.

In other respects, the contrast between the official and unofficial version of the last three years provides fewer graunds for optimism. On paper, extensive price liberalisation and mass privatisation have in three years given the country the rudiments of a Western-style market economy. In practice, however, both local and central government continue to fix a wide range of consumer and producer prices: anything from the cost of a loaf of hread, in some regions, to the domestic oil price, which remains around 50 per cent below world market levels.

Similarly, transferring ownership of state companies, in most cases to workers and managers themselves, haa often had a limited effect on the way the companies are run. The bulk of the industrial sector has yet to undergo the kind of restructuring it will oeed if it is to meet the demands of domestic consumers.

Russian goods are a rare sight among the rows of imported products of the average supermarket. Mr Hasso-A. Molineus, resident representative of the World Bank for the past three years, believes that there have been hopeful signs of change at the grass-roots over the past year.

"I think we all expected things to change too quickly. Some of the workers are beginning to sell their shares, and that means that managers are starting to feel the pressure of outside investors. Ownership doesn't change everything overnight: it's going to take time."

Burnt fingers: a disappointed shareholder of the get-rich-quick investment company MMM burns a "ticket" with a portrait of the firm's head

Many worry, however, that when outside investors do start to win control of many companies, they will find that illicit asset-stripping hy managers, and the embezzling of funds has left very little to restructure. "I've been to towns where all the main companies are dying, but the local banks are doing a roaring trade", says one Western husinessman working in Moscow.

Funds totalling $20bn are estimated to have left the country in 1994 alone, over five times the total reported losses of domestic enterprises. Real domestic capital investment fell by 26 per cent.

BUDGET FINANCES 1992-95 AS PER CENT OF GDP

	1992	1993	1994	1995*
Federal revenue	n.a.	10.6	13.6	14.0
Federal spending	n.a.	21.0	23.9	19.6
Budget balance	-18.8	-10.4	10.4	5.6

*Targeted. Sources: EBRD, UN, Russian federal government

Capital flight and low investment are both a symptom of the most damaging legacy of the past three years: the population's complete lack of faith in domestic assets, hrought on hy successive houts of high inflation.

The central aim of the 1995 stahilisation programme, agreed last month with the International Monetary Fund, is to re-build that faith in order to pave the way for future investment-led growth. "This year's plan will be Prime Minister Victor Chernomyrdin's third attempt st stabilising the economy", comments Sergei Aleksashenko, who last month resigned from the government after more than three years as deputy minister of finance. "In Russis, we have a proverb: doing something once is an accident, twice is a coincidence, but three times it's a rule."

Supporters say that the new plan has three features which the previous two lacked. The first is the supposed elimination of the printing press from the realm of budget finance. Over three-quarters of last year's 10.5 per cent budget deficit was funded through the emission of central bank credits. This year's smaller shortfall will instead be funded by the IMF loan, privatisation revenues, and the sale of government bonds.

The second difference is the unexpected tightness of the budget itself. The upturn in inflation in the last quarter of last year means that nominal GDP will now be 50 per cent higher than the forecast in the budget. Consequently, sticking to the same target for nominal spending would now mean a budget deficit of 5.6 per cent of GDP, rather than the 7.9 per cent originally agreed.

The plan's third distinction is the apparent strength of both Mr Yeltsin's and Mr Chernomyrdin's commitment to the plan. In both 1993 and 1994, the government adhered to relatively tight monetary and fiscal targets for the first part of the year, only to loosen credit policy over the course of the summer, in response to lobbying of important producer groups.

This year both the premier and the president would appear to have a greater personal stake in insuring that the targets are met.

The IMF's insistence on monthly progress indicators is evidence of its scepticism about the short-term feasibility of the programme. Nevertheless, credit growth fell sharply in the last quarter of 1994 and the government achieved the plan's tight monetary targets in the first quarter of 1995. Barring mishaps, monthly inflation – already down to around 7 per cent in March – might fall as low as 1-2 per cent by the middle of the summer. The IMF would then like to see price growth kept in the low single digits for the remainder of the year.

The government's credibility is central to the sustainability of the programme. The belief that Mr Yeltsin will falter in the autumn could mean that the government will continne to pay punishingly high real interest rates on government bonds.

Earlier versions of the programme attempted to tackle this problem by inclnding a fixed exchange rate, backed by a further $6bn IMF stabilisation fund. Yet the government now believes that the risks of failure would be too high.

"If we tried to be strong, and failed", says Sergei Pavlenko, director of working centre for economic reform, "we could end up weakening the entire programme. The better way to win confidence would be to stabilise the rouble gradually."

The government may also attempt to lower the cost of bond finance directly, by opening the market to the public. Developing the government bond market would provide some assurance that the government will not resort to monetary financing next year. In addition, official observers say that federal tax revenues, now 14 per cent of GDP, will have to rise further.

Advisers have persistently lohhied for higher taxes on energy, which will net only 2 per cent of GDP in revenues in 1995, despite the fact that the sector as a whole accounts for 15 per cent of GDP. In Indonesia, where the energy sector accounts for around 12 per cent of the economy, energy taxes net over three times more than in Russia as a share of GDP.

The IMF successfully fought for a small import duty increase in gas and oil export taxes in the new budget.

Advisers are pressing for higher energy taxes, which in 1995 will net only 2 per cent of GDP

President Yelstin's decrees, in March, promising a more sweeping liberalisation of prices and the abolition of company tax and import duty exemptions, were likewise demanded hy the IMF as a condition of granting the loan.

Like standing up to agricultural and military producers in the summer and early autumn, Mr Yeltsin's implementation of the price and tax reforms included in the plan would attest to his willingness to risk alienating the most powerful sectors of the economy in the interests of market reform.

Mr Aleksashenko, and others, suspect that a new series of loopholes will quickly take the place of the old. But for the moment neither he, nor the IMF, can do anything but wait and see.

REAL INCOMES AND INDUSTRIAL OUTPUT 1992-94

	Real Incomes	Real Output
1992 Q1	47.5	97.9
Q2	45.5	94.4
Q3	60.8	80.7
Q4	66.9	79.0
1993 Q1	57.8	78.1
Q2	64.1	73.8
Q3	66.8	69.7
Q4	68.5	66.8
1994 Q1	66.0	59.4
Q2	74.5	57.2
Q3	79.9	63.6
Q4	78.1	58.5

Incomes: 100 = 1991 average; Output: 100 = Dec. 1991. Source: Russian Economic Trends

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■ OIL AND GAS INDUSTRY

Blockages in the pipeline

The reform of Russia's oil and gas industry has accelerated in recent months, although liberalisation has so far failed to improve the environment for foreign investment in the sector, write ROBERT CORZINE and JOHN THORNHILL.

Under pressure from the International Monetary Fund and the World Bank, the government has taken steps this year to lift the domestic price of oil towards world levels.

Western economists argue that this will help remove distortions in the economy and encourage greater investment. But there are signs that the new regime is still not working as it should. Domestic oil prices are gradually rising but they remain stuck at about 40 per cent of world levels.

Oil demand, however, remains depressed because of Russia's continuing economic decline. Oil output dropped almost 11 per cent in 1994 to 302m tonnes compared with peak production of 570m tonnes in 1987. But crude oil exports grew to 89m tonnes, according to the new Union of Russian Oil Exporters.

The good export performance of the oil and gas industry has given Russia a wider margin for error in its economic policies. The gas industry in particular has been one of the most stable parts of the economy, with prodnction falling by less than 2 per cent last year to 606bn cubic metres. Gazprom, the giant gas monopoly which controls about one-third of the world's proven gas reserves, is the country's biggest export earner.

But low domestic demand has created a cash-flow crisis for many oil companies, although investment has also been stymied by high inflation and the steep cost of capital.

Some observers foresee a looming crisis for the industry, with the lack of investment triggering further falls in both output and exports. Mr Thane Gustafson of Boston-based Cambridge Energy Research Associates says such a crisis could trigger reform.

The need for large-scale investment could "change the Russian attitude toward Western companies in a more positive direction," be says.

The big foreign multi-nationals have all scoured Russia for opportunities but few have yet committed themselves to large projects. For several years two consortia have been discussing giant projects in the Timan-Pechora basin in Russia's Arctic circle and on Sakhalin island in the far east, but both have been dogged by bureaucratic delays and legal and fiscal uncertainties.

Those smaller joint ventures which have been established – such as Conoco's $375m Polar Lights project – are still perilously-poised, depending on special allowances to export all their oil output and exemptions from export taxes.

Some observers believe most foreign companies may eventually have to drop their plans to develop large, independent projects, and settle instead for alliances with their Russian counterparts. But at present most Russian companies appear more concerned with securing their position in a fast-evolving domestic industry, rather than cementing international ties.

Mr Igor Tsukanov, chairman of Centreinvest, a Russian consulting company, says: "The big oil companies are currently jockeying for position rather than trying to improve their position. The final shape of the industry bas still to be decided." He likens Russia's oil companies to players running around a Monopoly board. First they have been desperate to seize every property they can. Then they try to rationalise their assets and swap properties with other players. Only when they have built up an attractive portfolio of assets do they start investing in houses and hotels.

So far, the oil and gas lobby has not been that active in party politics unlike Russia's biggest banks and the military and agricultural lobbies. But there are signs of an increasing politicisation of the industry as the oil barons seek to protect the managerial freedom they have now won. Pressure from the oil industry was reportedly one of the biggest influences spurring President Yeltsin into sacking Mr Vladimir Polevanov, the privatisation minister who alarmed foreign investors by talking about the need for re-nationalising certain strategic assets.

Mr Viktor Chernomyrdin, the former head of Gazprom, continues to take a keen personal interest in the sector's development and under his premiership the big oil and gas companies have enjoyed a privileged status.

For example, the government has been severely criticised for not taxing the fuel companies adequately, imposing an undue strain on public finances. Mr Anders Aslund, a former adviser to the Russian government who is now at the Carnegie Endowment for International Peace, has condemned such exemptions as verging on "legalised criminality".

The government has recently been deliberating on the future structure of the industry. A report compiled for the government and the World Bank by the Boston Consulting Group recommended a number of policy and structural changes aimed at creating a "more deregulated, market-based structure".

It called for greater access to crude oil pipelines, and a regulatory regime to allocate access to the oil transport system. The issue is a crucial one for Russian and foreign companies, but the government has said that it will continue to allocate space on the basis of past production.

The report also recommended an overhaul of Russia's share trading and registration procedures and greater financial disclosure to encourage foreign investment into the new, partially privatised integrated oil majors, such as Lukoil, Yukos and Surgutneftegas.

Suggested reforms of the downstream oil sector include a cut in refinery over-capacity and the break-up of the local monopolies that control the country's 9,000 petrol stations.

Many Russian and foreign companies have already expressed an interest in such an undeveloped sector as petrol marketing. Lukoil, for example, the country's largest oil company accounting for 15 per cent of Rnssia's output, will increase its downstream activities to widen its profit margin and improve its cash-flow position.

"We need a bigger network of gas stations especially in Russia's hinterlands," says Leonid Fedun, vice-president of Lukoil.

The spectre of mass closures stalks the far-flung coalfields, writes **John Thornhill**

Miners wait for the last shift

In the relative comfort of Moscow it is easy to accept the proposition that state subsidies to industry are an economic evil, distorting the proper allocation of resources, featherbedding idle managers, and fuelling inflation.

Travel to any of Russia's many coal mining towns and that belief becomes somewhat harder to sustain. Talk to the miners waiting to join the evening shift at the Oktyabraskaya pit in the grim Arctic town of Vorkuta and even the ideological resolve of an Adam Smith would waver.

The sad truth is that much of Russia's coal industry, which was built by central planners with an obsessive desire to maximise production and little account of human or economic cost, has no future in a free market economy and will remain heavily reliant on state subsidies for the foreseeable future. The great challenge will be how to dismantle that old infrastructure without causing terrible unrest.

The miners of Vorkuta, which was built in the Arctic circle by political prisoners as part of Stalin's forced labour empire, say they have little prospect of finding a job or accommodation elsewhere. The town's 200,000 residents claim they are trapped in an economic Gulag. Tha restructuring of the coal industry is therefore emerging as a highly-politicised test case of how successfully the country can shed its communist heritage and move towards a more humane market economy.

The irony is that to scala down the industry effectively might require state intervention on as big a scale as that needed to construct the industry in the first place. Such remedies naturally spark suspicion in a country distrustful of the state's omniscience.

The World Bank, which has conducted an exhaustive review of Russia's coal industry, concluded that a free market was capable of sustaining no more than two-thirds of current production levels and perhaps only half of 900,000 mining jobs. While coal consumption is predicted to fall from 250m tonnes in 1990 to just 146m in 1997, production and employment costs have barely changed. Last year, tha industry absorbed more subsidies than any other sector apart from agriculture, swallowing credits equivalent to 1.2 per cent of GDP.

These subsidies impose a hesvy burden on the public finances. But they are also producing perverse results within the industry: they undermine the market price of coal and destroy the viability of Russia's more efficient pits.

The bank recommended that drastic action should be quickly taken to alleviate the "catastrophic" situation. "Either the restructuring can continue in an ad hoc and sometimes chaotic manner, driven by inevitable bankruptcies of local coal companies and causing immense social distress and political tension, or the government can use the existing budget subsidies to provide an adequate social safety net for those who agree to leave the coal industry," it concluded.

The optimal solution, the bank suggested, would be to redirect subsidies to create social mechanisms to enable miners and their families to retrain or take early retirement or move to other regions to find jobs. The bank offered to back such projects with $500m of funds.

Other countries have faced similar political dilemmas and social agonies in scaling down their coal industries. For example, employment in the coal industry in Belgium, France, Germany and Britain has fallen by more than 75 per cent over the past 30 years. In the US it has fallen by more than 50 per cent. But the difference perhaps is that the need for restructuring in other countries was never as acute as it is today in Russia and the general economic backdrop has never been so harsh.

The coal mining unions initially condemned the bank's recommendations as "market bolshevism" and called for greater investment as the solution to the industry's crisis. More thoughtful submissions argued that the practical complications of restructuring the industry along the bank's lines were colossal: retraining miners implied the government knew what skills were useful; relocating them suggests the government knew which regions would prosper.

Besides, determining what enterprise is profitable in Russia today is fraught with difficulties while the market remains so imperfect. The cash flow crisis at Vorkuta's coal association is caused more by the failure of customers to pay on time than by the government's inability to inject fresh credits.

In particular, Vorkuta's mines are heavily reliant on two metal plants, in Cherepovets and Lipetsk, which are experiencing difficulties in paying for their coal. "We understand that wa cannot cut the branch on which we are sitting," says Mr Alexander Stepanov, chairman of the Vorkuta coal association. "We cannot allow these enterprises to die because we depend on them. They are our main customers and if they close then we will have no market."

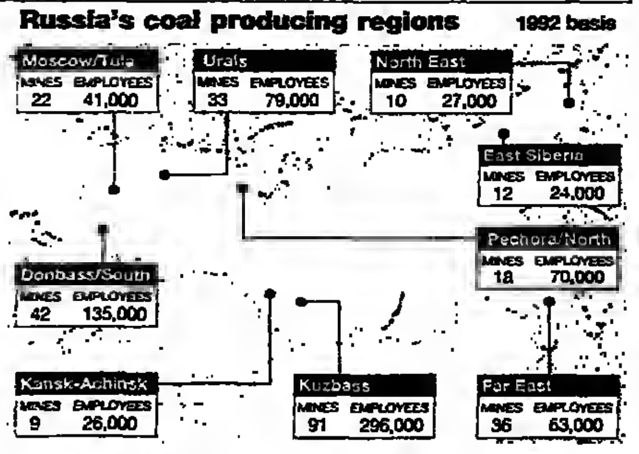
The viability of Vorkuta's mines is further threatened by the semi-privatised railway system which is now charging its captive customers extortionate rates to transport its coal. Without an effective state regulator, Vorkuta's coal association has no recourse against such price-fixing.

Given the political complexities involved, the likelihood is that Russia's coal mining industry will adapt slowly to the market economy lurching from crisis to crisis without an effective resolution to its woes. Miners will not receive their wages for months, safety standards will continue to slide and strikes will periodically erupt.

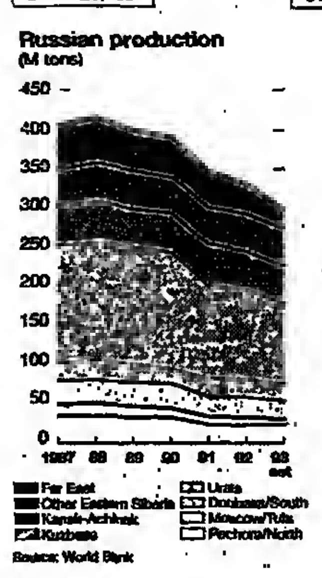
A committee of industry representatives, including academics, trada union leaders, ministers and managers, is considering how to reform the industry and is pondering the World Bank's views.

But Rosugol, the national coal industry body, is committed to closing several pits this year without putting much emphasis on creating social support programmes to cushion the blows. Rosugol has grown skilled at directing resources at the most militant regions to forestall industrial unrest. It seems intent on muddling through.

Russia's coal producing regions 1992 basis



Russian production
(M tons)



Source: World Bank

Productivity compared
(Tons per manshift, 1992*)

	Underground mines	Surface mines
US	23.70	49.40
Australia	18.10	36.30
South Africa**	7.70	na
UK	6.34	9.06
Germany	5.22	–
Russia***	1.95	11.13
Poland	1.95	–
China****	1.33	5.00
India	0.54	3.34

* Labour force figures for countries like China & India include workers with social functions that are not found elsewhere.
** 1991
*** Production workers only, assuming 210 shifts/year
**** Raw coal

Steel-worker in Magnitogorsk: production and consumption are falling

Western mining houses think again, says **Kenneth Gooding**

Eldorado loses its shine

Russia, when it was part of the Soviet Union, was thought to be a vast storehouse of mineral wealth. Western mining companies had no reason to doubt this until the break up of the Soviet Union. Then they were encouraged to visit Russia to see for themselves the state of its metal mining, smelting and refining operations, and they changed their minds.

While the opening of Russia to the west confirmed the presence of substantial economic deposits of oil and gas, the evidence was far less clear for metals. A great deal of the resources that do exist are in remote eastern regions that lack the infrastructure to permit viable mining activities to be established.

"What is clear is that most of the existing mining industry is in a pitiful state," says Mr David Humphreys, deputy chief economist et the RTZ Corporation, the western world's biggest mining group. The amount of metal in the ore at copper, lead and zinc mines is well below those in the west. The mineral from which aluminium is produced in Russia is of a quality that would not be used elsewhere in the world, "and the alluvial gold deposits of the far eastern region, long the mainstay of Soviet production, are largely worked out. Nickel alone appears to be mined from e deposit of genuine world class – at Norilsk in the far north.

"Throughout the Russian industry, under-investment has left operations with inadequate equipment, very low productivity and primitive environment protection practices."

Other analysts suggest that the Soviet Union concentrated mainly on keeping up the level of metal production to ensure that its military machine did not run short. Metals were produced without any reference to the true cost. Huge stockpiles were built up in case production problems did arise.

The break up of the Soviet Union changed all that. According to estimates by the CRU International metals consultancy group, primary metal production in the Commonwealth of Independent States has fallen since 1988 by anything from 9 per cent in the case of aluminium to 37 per cent in the cases of nickel and primary lead. Output was cut because of shortages of spare parts, reagents and equipment, rising costs of energy and, in some cases, power failures.

The relatively small drop in aluminium production was due to the success of western trading companies that supplied alumina, the raw material for aluminium production, to Russia and Tajikistan, for toll smelting. Tolling – where smelters simply process raw material owned by others – accounts today for at least half of all Russian aluminium production and contributed significantly to the republic's prodnction of copper, lead, zinc magnesium and titanium.

Although the fall in metals production was startling, the drop in consumption in the CIS was even more dramatic. The CRU estimates the drop ranged between 28 per cent for primary lead to 68 per cent for nickel.

This released growing volumes of metal for export, primarily to the western countries where it created havoc with prices and produced outraged calls for these exports to be curtailed. The European Union imposed a temporary quota on Russian aluminium, a move that led to a unique international trade agreement between some of the big aluminium producing countries, including Russia, and a voluntary cut in output by some companies, including those in Russia. The US took action against imports of uranium from Russia.

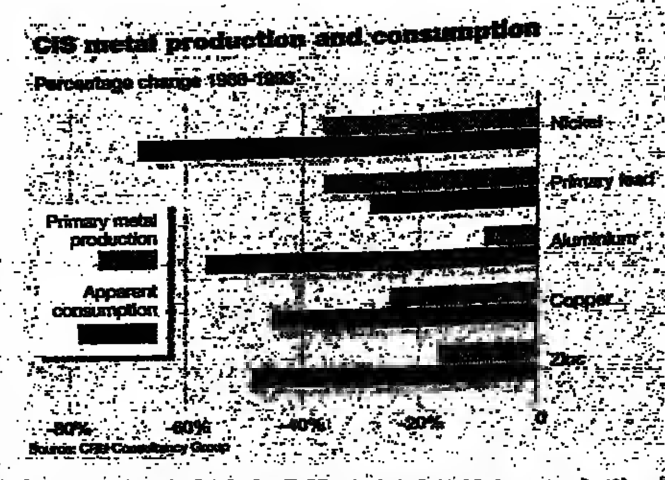
There is deep suspicion of foreigners and a fear of under-selling Russia's wealth

The global metals industry is now coming to terms with its changed circumstances. "The major shock to world markets thet came from the unforeseen increase in CIS exports is over and the downward pressure of these exports on metal prices is diminishing all the time," says Mr Christopher Stobart, joint managing director of CRU.

But he warns that Russia's desperate need to export metals will not disappear for many years because "Russia has little else to export, other than basic commodities". He points out that in 1990 oil, metals and diamonds accounted for 58 per cent of Russian exports. By 1993 this proportion had risen to 72 per cent. "If you add in all other commodity products, the proportion of exports accounted for by commodities rose from 78 per cent in 1990 to 86 per cent in 1993. And the total value of Russian exports has dropped by nearly 40 per cent during this three year period."

As the Russian metals industry is in such bad shape, some analysts suggest that, when its economy fully recovers, it will become a net importer of many base metals.

RTZ's Mr Humphreys says that the development of Russia's mining industry will need a great deal of capital, the one thing Russia does not have. "One answer is to turn to foreign investors but, although in their public statements the Russian authorities appear favourable to foreign investment, in practice they are more ambivalent. There remains a deep rooted suspicion of the motives of foreigners and a fear of under-selling the country's mineral wealth. To the extent that a role is seen for foreign companies, it is frequently in the development of deposits of too low a grade or too complex for local companies."



There also remain too many uncertainties for Russia to appeal to the big mining companies with capital to spare: clarification is needed on how jurisdiction over mineral resources is to be divided between the centre and the regions and greater realism needs to be displayed in the legal and fiscal conditions for foreign investment. As Mr Humphreys points out: "Western mining companies will need to be able to assure their shareholders that they will see a return on their money."

The western mining industry is spending some money in Russia, but almost entirely on gold projects. There are several reasons for this: gold does not attract transport or marketing problems associated with non-ferrous metals or concentrates (an intermediate prodnct); at present gold prices, good profit margins and payback periods can be projected for gold mines; and the scale of finance required for most gold projects is considerably less than for base metal mines.

A lot of noise has been made about the big western aluminium companies visiting the Russian smelters and making proposals to assist in their modernisation, but there has been little expenditure so far.

Mr Stobart at the CRU points out that it is the western trading companies that have made the biggest capital commitments to the CIS metals industry by financing tolling transactions and throngh pre-payments for exports. "These are shorter term investments than those which the mining or smelting companies have been contemplating, but the risks can still be large and the working capital provided to the mining industry by this means has been vital in preventing Russian output from falling even more than it has."

■ **Chrystia Freeland** visits Yekaterinburg, which holds the key to industrial Russia's success

Two time zones east of Moscow

Built atop the ehundant natural resources of tha Urals, Yekaterinburg is the capital of Russia's industrial heartland.

Two time zones east of Moscow, this quintessentially Russian city has also been the stage and the starting point for the country's most important national dramas in this century. The tsar and his family were executed here, factories withdrawn from European Russia were rebuilt in the Urals to power the Soviet war effort, and Mr Boris Yeltsin, leader of Russia's newest upheavals, began his career in Yekaterinburg.

Not quite four years later, amid less fanfare, Yekaterinburg and the Urals region are playing an equally crucial role in Russia's halting transition to a market economy. Taken together, the Urals region and neighbouring western Siberia are bome to one third of Russia's people and account for 40 per cent of its industrial production.

"The fundamental recovery of Russia is going to take place in the Urals," says Mr Jack Segal, the US consul to the region. "The things that make an economy run are produced in factories, not in offices."

Amid the vast, and often ontwardly decrepit, factories of the Urals, there are increasing signs that that recovery is beginning to happen. Moscow's nouveaux riches, whose fortunes are the hot-house fruit of banking and trading, announce their presence with an insistent parade of western luxury cars and flashy clothes. But, in blue-collar Yekaterinburg, the visible indications that Russia's traumatic economic transition is beginning to work take a more subtle form.

The area, with 40% of industrial capacity, has a vital role in the moves towards a market economy

Yekaterinburg's captains of industry still drive boxy Russian Volgas and appear to take a perverse pride in wearing ill-cut Soviet suits, but, in some cases, their modest manners conceal men who have taken radical steps which are now beginning to turn their factories around.

One of Yekaterinburg's potential success stories is Uralmash, a huge heavy engineering factory which occupies nearly 1,000 acres in one of the city's suburbs and employed 50,000 workers in its heyday. Three years ago the workers approved the appointment Mr Viktor Korovin, of a dynamic young director who is leading a quiet revolution in his factory. *(profile on page 9)*.

A slight, blue-eyed 42 year old, Mr Korovin is an avid fan of the works of Gen Dmitri Volkogonov, the historian whose exposés of Bolshevik brutality more commonly appear in the libraries of Moscow intellectuals than in the industrial environs of the Urals.

The economic changes Mr Korovin has inaugurated at Uralmash have been equally radical. He slashed the workforce down to 19,000 and shed unprofitable parts of the factory, such as the factory farm and sports complex and, controversially, Spetstekhnika, a daughter factory involved exclusively in defence production. The newly independent company promptly went bust, provoking local communists and nationalists to accuse Mr Korovin of being party to the destruction of the military capacity of the motherland – but Uralmash has been glad to have Spetstekhnika off its balance sheet.

This painful retrenchment has thus far brought only partial results. Last year, Uralmash had a slight profit of Rb45bn before taxes, but byzantine Russian accounting practices make this a difficult figure to evaluate, and year on year production fell by a walloping 44 per cent.

Yet Mr Korovin is hopeful that, if the government manages to bring inflation down to at least 5 per cent a month this year, Uralmash might increase its output by 5 to 8 per cent. Moreover, Uralmash, which sells 19 per cent of its production

Continued on facing page

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The craze for US culture is flagging and there is a yearning to rediscover Russia's roots, says **Bruce Clark**

National pride is back on tour

It is too early to say whether Vladimir Vasilyev, the newly appointed artistic director of the Bolshoi Theatre, will fulfil his dream. A distinguished dancer himself, he has pledged to breathe new vigour and variety into a ballet and opera company which he believes had grown stale under the iron grip of his predecessor and bitter rival, Yuri Grigorovich.

Equally uncertain are the prospects faced by Vladimir Kokonin, the theatre's reform-minded general director who was stood down in March by President Boris Yeltsin, only to be reinstated by Prime Minister Victor Chernomyrdin. Kokonin wants to replace the old jobs-for-life system with short-term contracts; this led to a bitter quarrel with Grigorovich.

But whatever the outcome, it says something about today's Russia that a power struggle at this 219-year-old repository of musical excellence should be commanding the attention of Russia's leadership and chattering classes.

Behind all the brassy hedonism of a newly capitalist country, another trend is discernible. Artistic tastes are getting more conservative and more nationalist: there is a renewed yearning for cultural products which are both home-grown and of unmistakeably high quality.

Television bosses report that their audience is bored with the cheap American pap which hit the screen after the communist system collapsed. They are responding with more frequent showings of classic Soviet cinema; and some foresee an imminent resurgence in good made-for-television drama.

In the final years of Soviet rule, a generation of young Russians seemed to lose interest in great literature, in part because Pushkin and Tolstoy had been drummed into them in the same dry and mechanical way as the thoughts of Marx and Lenin.

When the ideological shackles fell, the public – if it read books at all – turned feverishly to everything the old system had forbidden: sex manuals, badly translated American thrillers and the works of Dale Carnegie. Only recently have classical novels started to appear in the shops again.

Television audiences are tiring of cheap American pap and are being offered more frequent showings of classic Soviet cinema

Among the avant-garde artists of St Petersburg, which sees itself as the nation's cultural capital, some of the more trend-conscious characters have relapsed into careful imitation of the Russian painters of a century ago.

And the search for old-fashioned excellence is focusing on the Soviet era as much as the tsarist one. One of the biggest artistic events in St Petersburg recently was an exhibition of the Soviet style known as Socialist Realism. It sent people spinning back into a world whose passing had been too quick for many to absorb.

"It provoked a huge range of feelings," says local art critic Alex Kahn. "Everything from sober understanding to nostalgia to humour – things which are too painful to recollect, and positive emotions as well."

Bastions of modernism, such as the Borey Art Gallery which also sells experimental poetry and runs a bohemian cafe, have regained just a hint of of the siege atmosphere which pervaded Leningrad's counter-culture in communist days.

"Before there was political censorship, now there is economic censorship," says Ms Tanya Ponomarenko, artistic director at the gallery which tries to buck the conservative trend by providing an outlet for painters and writers whose commitment to the avant-garde is serious.

Part of her problem is that Russia's new rich have not decided what sort of art, if any, they want to patronise. But Ms Ponomarenko was pleasantly surprised recently to receive a cry for help from a newly established museum of modern art in an obscure but mineral-rich region of Siberia. Could this be the long-overdue cultural rebirth of the Russian heartland?

At the Comedian's Refuge theatre, a few decaying streets away, they are also talking about an artistic revival of the provinces, albeit of a tamer, and probably more typical, sort.

The municipality of Severodvinsk, a grim Arctic defence town, recently invited the company to fly up and stage a production.

The theatre's leading actor, Alexei Ispolatov, is a moderate exponent of the new nationalism. "I like Vaudeville and I like Tennessee Williams," he says. "But if we did either I would want to put them firmly into a Russian setting."

Actors' wages at Comedian's Refuge, at Rb160,000 a month, are still miserly; but its small premises are consistently full, and nobody is talking about a total collapse any more.

In the immediate aftermath of the Soviet downfall, there were moments of real doubt as to whether the great theatres and concert halls of Moscow and St Petersburg could survive without state subsidies.

By now, at least in the great cultural institutions, the immediate threat of extinction has eased, thanks to sponsorship, foreign tours and a modest improvement in public finances.

The recovery should not be exaggerated. Economic change has wrought devastation on all but the highest level of cultural life: throughout Russia, premises which might once have been used for concerts or ballets are now given up to beauty contests, casinos and strip-tease shows.

It would be premature to say that this damage has been undone. Russia is still a nation of under-employed opera singers, virtuoso pianists forced to play in restaurants, and dejected novelists who can no longer find the worthy periodicals known as "thick journals" to publish their outpourings.

But more Russians seem to be nostalgic, sometimes uncritically so, for the good things – including artistic excellence – which went down the drain with the dirty bath-water of communism.

In the 10 years since Russia embarked on the roller-coaster called perestroika, cultural life – like almost everything else – has been through some wild extremes: from the excitement of freedom to a facile love affair with the West, from raunchy nihilism to jaded indifference.

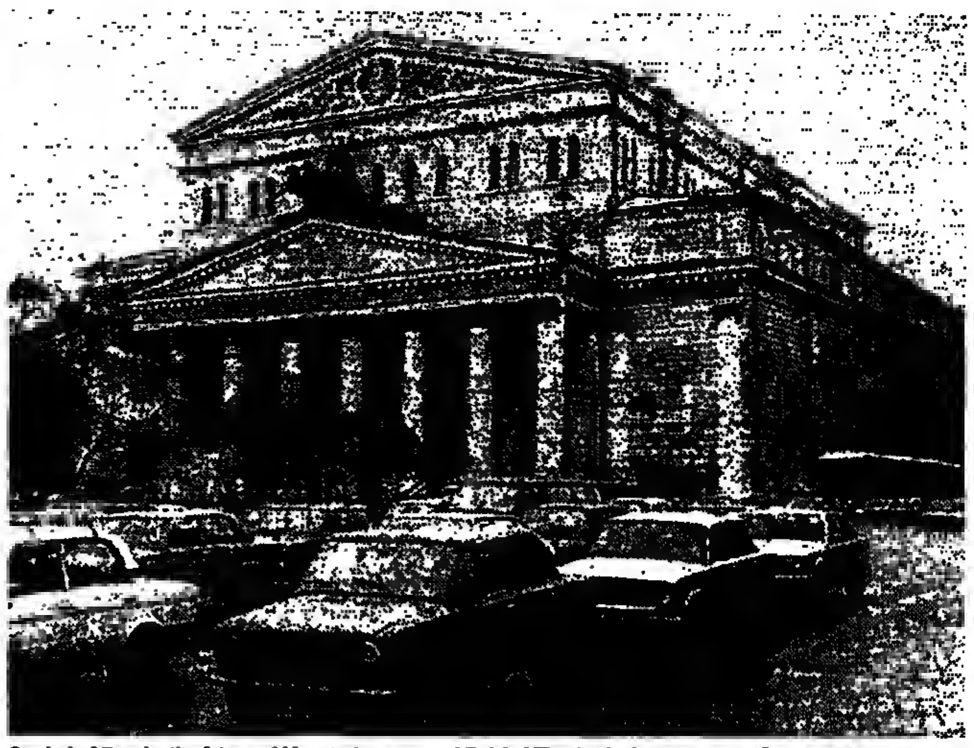
The romance of the newly liberated cultural underground faded rather quickly in the eyes of most Russians, but it was artificially prolonged for several years by a Western fad called Gorbymania.

Now the whole cycle has largely been played out. The first flush of Western interest in post-Soviet culture has receded, and those artists who have not emigrated westwards will probably be forced to look inwards in future, both for inspiration and sponsorship.

In recent weeks, the rediscovery of Russian forms of excellance has been highlighted not only by power struggles at the Bolshoi but also by the reopening of Moscow's Tretyakov Gallery after 10 years of repair and improvement.

For lovers of Russian painting, from the icons of Andrei Rublyov to the arresting contours of Kandinsky, the gallery's reappearance is a long-awaited delight.

With a bit of luck, it might also provide the inspiration for some young genius who has embarked on what should, logically, be the next phase in Russia's development: a marriage between ancient cultural roots and modern Russian reality, a strange, bitter-sweet world of e-mail, fast bucks and tragic wars.



Symbol of Russia: the future of Moscow's renowned Bolshoi Theatre is the centre of a fierce political battle

Chrystia Freeland describes the new dynamic class of factory manager and meets three of its members

Industry pins its hopes on youthful saviours

INDUSTRIAL production on a gargantuan scale was one of the pillars of the centrally planned economy and directors of large factories consequently occupied a privileged place in the Soviet Union's political hierarchy. Desk tops crowded with half a dozen telephones and a fleet of black Volgas were the outward symbols of the near feudal power the traditional Soviet factory director exerted over the lives of the thousands of people who received their jobs, homes, vacations, groceries, medical care and children's schooling from their workplace.

But, for most of the Soviet Union's industrial elite, the collapse of communism has brought a precipitous fall from grace. Russia's stumbling efforts to create a market economy have transformed many of their enterprises from cosetted workshops of communism into the financially troubled step-children of capitalism, where work stoppages and layoffs have become commonplace. Flashy young Muscovite bankers, with fortunes accumulated almost overnight, are unseating the old Soviet industrial lords as the new economic masters.

"Unfortunately, today it is easier to make money in the financial markets than by manufacturing," is the sad observation of Mr Vladimir Kadannikov, who, as the director of the Avtovaz factory, producer of Lada cars, was one of the Soviet Union's mightiest industrial bosses.

Mr Sergei Aleksashenko, a market reformer who recently left his post as deputy minister of finance, agrees. "Ten or 15 years ago, a factory director who could just walk into the office of the General Secretary of the Communist Party was a very big man," Mr Aleksashenko says. "But, today, a new phenomenon has appeared. Bankers are now the chief partners of the government and they make their money not through investment but by reallocating money."

Although bankers are the undisputed kings of the new Russia, recently, a new generation of factory managers has quietly begun to emerge. Young and dynamic, with only tentative connections to the old economic order, they are struggling to turn some of Russia's crippled industrial giants around. Their success is crucial for the longterm prospects of market reforms.

KEY FACTS

Head of state	President Boris Yeltsin
Area	17,075,400 sq km
Population	148.5 million
Currency	Rouble

ECONOMY

	1993	1994
Exchange rate (R/$) [1]	1,247	3,550
Nominal GDP ($bn)	159	268
Real GDP growth (%)	-12.0	-15.0
GDP per capita ($)	1,075	1,815
Inflation, monthly avg. (%)	20.6	9.8
Growth in indust'l output (%) [1]	-16.1	-12.4
Average wage ($/month) [1]	113.9	104.1
Growth in real wages (%)	-6.8	-16.9
Growth in retail sales (%)	+20.5	+50.9
Net int. reserves ($bn)	6.4	2.5
Unemployed (000's) [1]	836	1,637
Unemployed rate (%) [1]	7.1	5.5
Interbank lending rate (%) [2]	17.6	13.8
Crude Oil prod. (m tonnes)	316	317
Firms privatised (000's) [1]	*89*	*112*

(1) At year end. (2) at year end on 1-3 month credits
Source: Russian Economic Trends, Whurr Publishers, London. Telephone. UK 0171-359-5979 (USA 913-843-1221)

☐ Viktor Korovin

Heavy plant crossing

As one of Russia's leading heavy engineering plants, Uralmash is known as "the mother of Russia's factories" because so many of the country's industrial giants operate using Uralmash machinery.

Mr Korovin, who had worked at Uralmash before spending 18 months working in joint venture companies in Germany end Austria, became director of Uralmash in January, 1992, after his predecessor's fatal heart attack left the factory without a manager.

Mr Korovin, a slight 42-year-old who has spearheaded a radical but painful restructuring scheme, suspects that the workers did not fully understand what they were getting themselves into when they approved his nomination to take over the plant.

"At the time, many people supported my programme without really comprehending what it involved. They were just tired of not having a director so they picked me," Mr Korovin says. "But when I actually began to do what I said I would then a strong resistance emerged within the workers' collective."

Given that Mr Korovin's restructuring has brought the factory's workforce down to 19,000, from the 55,000 it employed in its heyday, that resistance is not surprising. Moreover, Mr Korovin has chipped away at one of the shibboleths of the Soviet economy, the role factories traditionally played as social welfare providers. He sold the factory farm and has negotiated a deal with the local government gradually to transfer the rest of the factory's social infrastructure to the state.

Together with Russia's other manufacturers, Uralmash has suffered a deep fall in output. But Mr Korovin is hopeful that, if the government makes even partial progress towards bringing down inflation, this year Uralmash's output could grow by 5 to 8 per cent.

These hopeful signs, especially when contrasted with the general devastation of the Russian industrial landscape, are slowly winning back the confidence of those workers lucky enough to still have jobs at Uralmash.

"In 1992 my workers thought I was crazy, out of line," Mr Korovin says. "But, now that other big factories such as Zil and Rostelmash have begun to experience frequent work stoppages and pay their wages six months late my workers have begun to say that their director was not so crazy after all."

Viktor Korovin: manager of Uralmash, Yekaterinburg

☐ Lev Khasis

Aircraft fly again

Just 28 years old, Lev Khasis became the manager of Aviacor, an aircraft factory in Samara, some 1,000 km east of Moscow, after creditors forced the company into receivership last autumn.

Mr Khasis has a degree in aviation engineering and had done his apprenticeship at the factory, but, like many entrepreneurial young Russians he chose not to begin his career there because he felt the rigid factory hierarchy offered little chance of advancement. "If I had gone to work at the factory when I finished the institute, the greatest promotion I could have received by now would have been to be manager of one of the production lines," Mr Khasis says.

"By producing our planes in Russia we can make them more cheaply than anyone else"

So, instead of joining the aircraft factory, he became involved in various trading companies, the sector which flourished in the first months of Russia's move to a market economy, and then switched to banking, becoming regional director of Avtovazbank, one of Russia's leading new banks.

When a local court forced Aviacor into receivership in one of Russia's first big bankruptcy proceedings, Mr Khasis jumped at the opportunity to return to his first love – aircraft building. Mr Khasis, whose salary is tied to Aviacor's success at paying back its creditors, inherited a factory mired in debt and with a management which he suspects was more interested in receiving personal kickbacks than in making a profit for the factory from the sales of the Tupolev-154s it produces.

But Mr Khasis, who has put the assembly lines back to work by negotiating lines of credit with domestic and western banks and on the strength of new orders, is confident he can turn his factory around. "I am lucky, we produce something for which there is a market," Mr Khasis says. "And by producing our planes in Russia we can maka them more cheaply than anyone else."

Lev Khasis, manager of Aviacor Aircraft, Samara

☐ I. Bakaleynik

Tractor take-over

When Iosif Bakaleynik, an urbane product of Harvard Business School, took charge of the Vladimir Tractor Factory after a battle with the former director, he was seen as the victor in Russia's first western style take-over.

After a previous, unsuccessful take-over bid, Mr Bakaleynik ousted the old manager and took over the plant in March, 1994. His tenure became even more secure this past February after Mr Bakaleynik's main backer, Mr Len Blavatnik, an American investor, increased his holdings through various subsidiaries to more than 50 per cent.

Well versed in the lexicon of his alma mater, Mr Bakaleynik describes the Vladimir Tractor Factory as "a normal turnaround situation". He inherited a factory hobbled by a heavy debt load – which he has tried to ease by opening up credit lines worth $14m – and perverse Russian financial practices, which included shipping goods without ascertaining the client's ability to pay.

But Mr Bakaleynik, who had worked at the Vladimir Tractor Factory before a government scholarship took him to Harvard, has been confronted by problems more confounding than those posed at Harvard.

The $2,500 price tag for the 15 horsepower tractors Vladimir produces makes them the cheapest offering on the international tractor market and has given the Vladimir Tractor Factory a purchaser for each tractor that it makes.

But this cut-rate price means the Vladimir Tractor Factory operates on painfully low profit margins. Worse still, when Mr Bakaleynik brought in McKinsey, the US management consultants, to assess his factory they told him that, according to American accounting standards, instead of making a Rb7.2bn profit before taxes last year the factory earned only Rb2.2bn.

Mr Bakaleynik is sufficiently confident of his management skills to believe he will succeed in widening the factory's profit margins and extending its markets. But he is powerless in the face of an inept central government which is crippling its manufacturers with high inflation and heavy taxes.

"Thanks to the government, we made a loss last year," Mr Bakaleynik fumes. "Russia is a jungle in which, at any time, you can expect a tax man to appear from around the corner who can wipe out your company at the stroke of a pen.

"My job is to position the company so that it benefits from stabilisation," he says, "but I must also take care thet it does not get too hurt from continued chaos."

East of Moscow

Continued from facing page

outside the former Soviet Union, has managed to retain its export markets, which are dominated by the USSR's former socialist partners, in the face of western competition.

"When the Soviet Union fell apart, western companies thought they would easily take over our markets," says Mr Andrei Sevastianov, head of Uralmash and Partners, which handles the factory's exports. "But then our customers looked at all of that complex capitalists machinery with its fancy computers and they said, it is very beautiful, but it is expensive, and anyway, we are more accustomed to using Uralmash machines. When they break down you can hit them with your wrench and they won't be damaged."

Even if slimmed down factories like Uralmash help Yekaterinburg to lead a national economic recovery, the dominant political issue in the region – the conflict between the Urals and the central government – is likely to remain unresolved. The clash reached a peak in the autumn of 1993, when Mr Yeltsin used the political power he acquired by crushing a rebellious parliament in Moscow to sack overly independence-minded regional governors. One of his victims was the Sverdlovsk oblast governor, Mr Eduard Rossel, who had been spearheading a campaign to create a larger Urals Federation with greater autonomy from the capital.

But the regional grievances remain. Sverdlovsk oblast, which contributes 43 per cent of its tax revenues to the national coffers, and its similarly burdened neighbours resent their position as "donor" oblasts and are angry that the ethnic republics within the Russian federation effectively enjoy greater autonomy than the oblasts.

"We are one of the few donor oblasts in Russia and we do not like this," says Mr Valeri Trushnikov, head of the oblast administration installed by Moscow after Mr Rossel was sacked. "Many of the subsidised regions live better than we do because when they run of out money all they need to do is ask the federal government for more."

The strength of this regional sentiment could be put to the test on June 18, when elections for the governor's post and a referendum on greater regional autonomy are scheduled to be held, unless Moscow succeeds in its efforts to block the ballot.

The tentative indications of an economic upturn in Russia's industrial heartland are a cheerful sign for the Kremlin.

Newspapers are learning the hard way that freedom is not always a licence to print, writes **Neil Buckley**

Dictatorship of the bottom line

For seven decades, Russian newspapers battled with censorship and government or Communist party control; in recent years their biggest struggle has been with commercial realities.

Gone are the days when official statistics could boast that 159m newspapers were published daily in the Soviet Union. The break-up of the Union brought with it a big fall in newspaper readership.

However, the transformation of some older Soviet papers into commercially successful products, together with the launch of new papers which are becoming powerful publishing houses and the rapid growth of the advertising market, suggests the Russian press has a reasonably vibrant future.

Moreover, often brutally graphic reporting of the war in Chechnya by newspapers and television, in the face of stern political attacks, demonstrated the extent of media freedoms won in the 10 years since the advent of glasnost, and the determination to defend them. But the effective exile because of a dispute with the Kremlin of Mr Vladimir Gusinsky, head of the Most banking group and – as the owner of a television station and several newspapers – Russia's first media magnate, demonstrates that there are still limits to those freedoms.

Hot from the press: a reader grabs a copy of the top-selling Moskovsky Komsomolets

When Mr Mikhail Gorbachev came to power in 1985, the Soviet Union boasted several of the world's biggest-selling papers: *Trud* (Labour) the trade union paper, with an 18.2m circulation; *Komsomolskaya Pravda*, the newspaper of the Young Communist League, with 17m; *Pravda*, the Party paper, with 11.3m, and its youth version *Pionerskaya Pravda* with 11m; *Selskaya Zhizn* (Country Life) – 8.7m; and *Izvestia*, the government paper, with 8m.

Glasnost provoked a shake-up, as papers embracing the new openness enjoyed sometimes spectacular increases in popularity. *Argumenty i Fakty* (Arguments and Facts), by publishing information which Mr Gorbachev complained even he often did not have access to, was transformed from an obscure political weekly with about 10,000 readers in 1980, to the world's biggest-selling newspaper with a 34m circulation in 1990.

Late in the glasnost period, new independent papers such as *Nezavisimaya Gazeta* (The Independent), *Kuranty* (Chimes) and *Kommersant* (The Businessman) gained wide popularity, along with tabloid-style papers such as *SPID-Info* (Aids Information) and *Chastnaya Zhizn* (Private Life).

A second upheaval came with the onset of economic reform in 1992. As paper, printing and distribution costs rose towards western levels, newspapers suffered the twin blows of being cut loose from organisations that had funded them, and a plunge in subscriptions.

Between 60 and 80 per cent of the readership of most Soviet papers was accounted for by subscribers paying half-yearly subscriptions in September and April. As living standards fell and newspaper prices spiralled, subscription figures in September 1992 dropped to 5 per cent of their September 1990 level.

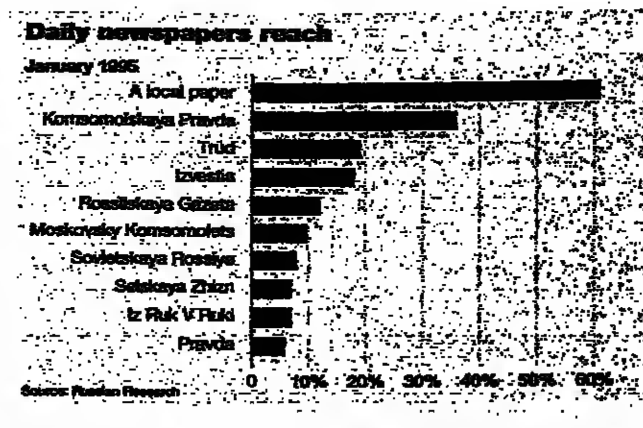
Higher sales from street stalls took up some of the slack, but subscription rates never recovered. For *Izvestia*, for example, circulation has fallen from 8m in the Soviet era to about 800,000.

"In the old days, people subscribed to five, seven, or even 10 different publications. Now they subscribe to one," says Mr Yuri Kirpichnikov, editor of the newspaper *Delovoi Mir* (Business World).

Not all papers weathered the storm. The struggling *Nezavisimaya Gazeta* is the source of takeover speculation; while the *Rossiya* newspaper has cut back from a daily to a weekly.

What saved many newspapers from extinction was the development of the advertising market. Mr Sergei Visilov, of the Moscow advertising monitoring group Neks-SV, estimates that the ad market grew from almost nothing at the start of 1992 to between $850m and $950m last year. Of that, about $250m was press advertising, two-thirds in the Moscow-based press.

So who is prospering in the new, commercial market? Many privatised papers, such as *Komsomolskaya Pravda*, *Izvestia* and *Moskovsky Komsomolets*, whose titles reflect their Soviet origins, have abandoned socialist dogma to become successful general-interest papers. Several have



fast-expanding publishing houses.

Mr Yuri Yakutin, editor of *Ekonomika i Zhizn* (Economics and Life), a specialist economics and accounting weekly previously published by the Communist party, is able to say with pride: "Five years ago we had one 24-page newspaper. Now we have 21 publications, 1.2m readers, our own news agencies, computers, car fleet and offices around Moscow."

Nationalism and the high costs of distribution from Moscow may give birth to strong regional papers

Some newer independent publications are also expanding. *Kommersant* has a daily paper and weekly business magazine, as well as personal finance, lifestyle, and luxury car magazines. Another expanding market is advertising publications such as *Extra-M*, *Centre-Plus* and *Iz Ruk v Ruki* (Hand to Hand), often circulated free directly to people's homes, and attracting large volumes of consumer and personal ads.

Unlike in other eastern European countries, international investment in the Russian media market has been small. Joint ventures involving the *New York Times*, *Business Week*, and Hearst Corporation have had limited success.

The *Financial Times* publishes a twice-weekly business supplement in association with *Izvestia*, called *Financial Izvestia*. Another publishing success has been the Russian-language edition of *Cosmopolitan* magazine, published by the Dutch entrepreneur Mr Derk Sauer, also publisher of the successful English-language paper, *Moscow Times*.

However, Russia's biggest media owner remains Mr Gusinsky, proprietor of the television channel NTV, the *Sevodnya* (Today) newspaper, and several other papers, currently residing outside Russia for fear of arrest over political disputes.

A third, more gradual, upheaval may still be on the way in the Russian press. Observers believe that high distribution costs and the reassertion of strong regional identities in post-Soviet Russia will lead to "national" papers withdrawing to Moscow, and the emergence of influential regional papers, along US lines.

"Regional readers are losing interest in the central press," says Mr Kirpichnikov. "Central papers may become like big holding companies owning a number of local papers."

Surveys by Russia's Public Opinion Foundation and Russian Research, a London-based media research group, confirm this "centrifugal" trend. Both found the percentage of people reading a local paper was more than 60 per cent, while only about 40 per cent read the most popular national papers. The total circulation of regional papers in 1993 exceeded that of central papers by 7m, but in 1994 by 11m.

For national papers glad to have survived the last few years, the struggle is not over.

■ AGRICULTURE

Bogged down in the rut of Stalinism

Joseph Stalin's coercive collectivisation of Soviet agriculture in the 1930s was the keystone in the construction of the communist economy. Only after collectivisation had deprived farmers of their ability to dispose of their crops freely could the Stalinist state extract a sufficiently large surplus from the rural economy to fuel the Soviet Union's grandiose industrialisation drive.

Today, agriculture has become the Stalinist spectre least responsive to the exorcism of market reforms and its haunting presence in the Russian economy threatens progress in other areas. While a mass privatisation programme has already succeeded in transferring more than half of Russia's industrial and service sectors into private hands, and restructuring in these areas has haltingly begun, market reforms have made only tentative inroads into the agricultural sphere.

At the same time, the collapse of the centrally planned economy has made Russia's already inefficient farmers even less productive. In 1994 Russia harvested only 83m tonnes of grain, down from 116.7m tonnes in 1990.

The prospects for this year's crop are no better, prompting Mr Alexander Nazarchuk, the minister of agriculture, to predict that "the country may lack basic foodstuffs" this year and other agricultural officials to warn that Russia may be forced to import as much as 8m tonnes of grain to make up for the domestic shortfall in production.

As representatives of one of the factions locked in a bitter competition for state funds, Russia's agricultural bureaucrats have a vested interest in doomsday forecasts. But even reformers in the agricultural sector have begun to warn that Russian farming could be on the brink of collapse.

"Most of the elements of an agricultural collapse are in place," says Mr Yosif Bakaleynik, a Harvard Business School graduate who has taken over the management of one of Russia's leading tractor factories. "Agriculture had accumulated resources during the Soviet period and it has taken several years to run them down. The collapse doesn't happen overnight, but you cannot continue this way indefinitely."

Mr Bakaleynik warns that Russian agriculture today is "caught in a stalemate between the old agricultural lobby, which doesn't want to change and reformers who are pushing in the opposite direction". These conflicting pressures have, in Mr Bakaleynik's view, created "the worst possible of all worlds. Agriculture is in the middle of the road, and that is where you get run over."

The agricultural sector's stubborn immunity to reform is posing twin threats to Russia's broader economic and political transformation.

The economic danger is that, in a repeat of last year's experience, the government will eventually cave in to the agricultural lobby's increasingly strident demands for more federal funding. Doing so could jeopardise the government's ambitious stabilisation programme, which aims to bring monthly inflation down to 1 per cent by the end of the year.

This year's second major test of Russia's post-communist transformation is a parliamentary election, scheduled for December. Here, too, Russia's largely unreformed agricultural sector could exert a baleful influence.

In a 1993 parliamentary ballot rural areas overwhelmingly supported the Agrarian Party, which is the country cousin of Russia's communists. The expectation that Russian farmers will even more strongly back opponents of reforms at the polls this year is one reason why some Russian businessmen and politicians have begun to call for a postponement of the elections.

Agriculture, traditionally the neglected stepchild of both communist and reformist leaders, is unexpectedly emerging as such an important player in Russia in part because of the uniquely conservative mentality of the rural bureaucrats whom central planners put in charge of the sector.

So deep is their psychological resistance to reform that even the food processing sector, which theoretically should be no more difficult to privatise than heavy industry, has been quietly evading change. According to government statistics, only 1,302 food processing enterprises, barely more than half of the government's target figure, have so far been transformed into cooperatives, a half-way house on the road to full privatisation.

But the bigger problem is that, in contrast with factories which can be transformed into western-style joint stock companies through auctions or investment tenders, collective farms are structurally more difficult to reform.

The dominant western model of a single proprietor who owns or leases the land he farms is difficult to duplicate in Russia, where hundreds of collective farm members work farms which would be run by a single family in the American prairies. Breaking up the collectives into dozens or even hundreds of fully private family farms risks losing the economies of scale.

Collective limitations: 8m tonnes of grain may have to be imported

A pioneering project launched in 1993 in Nizhny Novgorod, the region which has served as a beachhead for many of Russia's market reforms, has attempted to get around this structural obstacle. "There are some people in Russia who want to split the farms up into 5 hectare chunks, there are other people who want to preserve the collective farms intact to keep the economies of scale," explains Mr Alan Bigman, who was field officer for the International Finance Corporation, which, working with the progressive regional administration, created the land programme.

To get around this dispute, the Nizhny Novgorod programme gives collective farm workers a land share which they can then pool with their neighbours' shares in configurations which they choose during the privatisation process.

"The conclusion is that if you can get around the political obstacle by handing the choice to the farmers, you break the deadlock," Mr Bigman says. "On the whole they've kept the farms in fairly large chunks of between 250 and 1,000 hectares."

Mr Bigman says that "the early results of the Nizhny Novgorod programme are very encouraging and it is beginning to spread rapidly to other regions of Russia". But the question is whether these tentative beginnings of reform can avert the collapse, which bureaucrats are predicting, or the conservative campaign which rural Russia has already started.

Chrystia Freeland

هكذا من الاصل

Ivan the Terrible's conquests are at stake, writes Chrystia Freeland

Boris of all the Russias

To western eyes, the defining moment in Russia's great political transformation came in August, 1991 when Mr Boris Yeltsin, the Russian president, led the ultimately successful democratic resistance to a hardline coup.

The image of Mr Yeltsin standing astride a tank in front of the White House and calling on soldiers to join the sea of pro-democracy civilian protestors gave western observers a visual key to the upheaval Russia was undergoing: Russian democrats were fighting Russian communists, and the democrats won.

But, together with this struggle to dismantle communism, Russia has been undergoing another profound political change: the steady collapse of the Russian state. Now that the communist system has been buried, and its resurrection seems increasingly unlikely, the evisceration of the Russian state is emerging as the dominant and defining issue in Russian politics.

It is an issue which draws much of its power from the historical magnitude of Russia's loss. Modern Russia began in the sixteenth century, when Ivan the Terrible launched a state-building project known as "the gathering of the lands of Rus". With a combination of brutal force and persuasion he laid the foundations for an authoritarian, centrally ruled Russian state whose inexorable expansion would continue for the next four centuries. The Bolshevik coup d'état brought only a temporarily set-back: after an initial haemorrhage of power and territory, Russia's new communist lords consolidated their authority, and by the end of the Second World War they were masters of a greater swathe of the globe than any tsar had ever been.

The collapse of communism, which the west celebrated as a historic triumph of democracy over totalitarianism, has been a defeat of dizzying proportions for the Russian state. The erosion which began in 1989 with the loss of Moscow's eastern European satellites became a landslide in 1991, when the Soviet Union disintegrated, creating 15 new states. Even within its newly reduced boundaries, Russia's statehood was fragile: the heavily armed Chechen fighters were the most bellicose of dozens of autonomous republics and regions which began to demand greater independence from Moscow.

Initially, the struggle to destroy communism overshadowed the enfeeblement of the Russian state. In December, 1991 Mr Yeltsin was one of three republican leaders who signed the founding document of the Commonwealth of Independent States, the agreement which allowed the non-Russian states to achieve independence from Moscow without bloodshed. Within Russia, one of Mr Yeltsin's earliest and most famous mottos was his call for regional leaders to "take as much power as you can handle".

But today, when the collapse of communism is becoming a historical event and private property has become the dominant form of ownership in Russia, the question of statehood is emerging as Russia's most important political issue.

The war in Chechnya marked the brutal beginning of Russia's new political era. To many western observers, Russia's still unfinished campaign to subdue Chechen separatists

Reformers are divided over the use of armed force to prevent Chechnya from seceding

appeared to be the death rattle of the Russian military machine. If Russian hardliners could not swiftly bring fewer than 1m Chechens to heel, the logic went, what chance had they of taking control of the entire Russian state?

But within Russia, the Chechen war has had different ramifications. Its very brutality is being used by the Kremlin to bring other recalcitrant regions to heel. In his state of the union address in February, Mr Yeltsin drove that message home warning "the peoples of Russia" that devastated Chechnya is an example of what happens to would-be separatists.

Moreover, Mr Yeltsin's refusal to waver from his military course in Chechnya, in the face of fierce domestic and international opposition, has been the manifestation of a tough style of governance Russia has not known since the glory days of communism. As Mr Evgeni Kisilev, Russia's most popular TV pundit, puts it, "this war shows that Yeltsin can spit on public opinion, and get away with it".

Mr Sergei Kovalyov, a member of parliament whose outspoken criticism of the Chechen war cost him his post as Russia's human rights commissioner, believes the conflict in the Caucasus will have an even more chilling effect on Russian politics.

"Some form of authoritarian power will be built up," Mr Kovalyov predicts. "There will be a catastrophic widening of the gulf between the government and the people and the country will probably sink back to the level we know from the last years of Soviet power."

The clearest sign that the Chechen war has been the beginning of a new political epoch in Russia is the rift which it has provoked between Mr Yeltsin and the democratic forces which, in the past, had been his most reliable supporters. Russia's Choice, led by Mr Yegor Gaidar, who served as Mr Yeltsin's prime minister during Russia's boldest period of reforms, is the country's best organised pro-reform party with the strongest representation in parliament.

But the Chechen war, which Russia's Choice strongly criticised, forced the party into open opposition to the president. That split has provoked internal dissent within Russia's Choice, whose anti-war stance cost it the support of its leading financial backer, and set Mr Yeltsin on a search for tougher allies.

"The real losers are the reformers," says Mr Michael McFaul, a Moscow-based senior consultant at the Carnegie Endowment for Democracy. "They are now internally divided over the war and during the next elections their patriotism will be called into question."

The Chechen war has been the immediate catalyst for the disarray within the democratic camp, but its confusion is also an inevitable reaction to the broader realignment taking place within the Russian political arena.

This political reconfiguration was recently described by *Rossiyskaya Gazeta*, the Russian government's official newspaper. "If previously there was one camp of 'democrats' while 'red-browns' [the Russian term for communists and ultra-nationalists] were on the other side, then today that division has lost all meaning," the newspaper wrote. "Today the division is between those who are against a strong state and those who support the strengthening of Russian statehood, regardless of their economic orientation."

The effort to find a place within these new pro or anti state battle lines has intensified as Russia gears up for parliamentary elections, scheduled for December, 1995, and a presidential ballot due to be held in June, 1996. Public disillusionment with the traumatic political and economic upheavals Russia has undergone over the past three years has led most observers to predict a communist and nationalist landslide at the polls.

The anti-reform mood of the public has forced politicians within the current government and democrats who, even if they are in the opposition are seen as the initiators of reforms, to scurry to reposition themselves.

"It would be political suicide to campaign on a platform that says 'we are the people who brought economic reforms to Russia'," explains Dr Sarah Mendelson, a programme officer at the Moscow office of the National Democratic Institute, an American foundation which advises Russian politicians on party building.

As a result, Ms Mendelson

President Boris Yeltsin (shown above in an anti-war cartoon in Izvestia) is trying to preserve the empire founded by Tsar Ivan the Terrible (right)

believes that "Yeltsin is going to try to reposition himself as a stability leader. He will try to distance himself from reform and he could get some mileage out of that."

But some observers believe that no amount of fancy political footwork can protect Russia's current leaders from the wrath of the country's dissatisfied electorate. This prediction has led a growing number of Russian businessmen and politicians close to the Kremlin to suggest that the elections be called off altogether.

The mounting calls for a postponement of the elections dovetail with the emergence of Russian statehood as the country's most pressing political issue. This new political landscape has presented Mr Yeltsin with a troubling political choice. The president must decide whether he wants to become the father of Russian democracy or a late 20th century tsar whose strong hand steers his nation back to greatness.

As *Rossiyskaya Gazeta* put it, Mr Yeltsin now has only two options. One choice is "voluntarily to step down after a year and a half" and go ahead with scheduled elections. Mr Yeltsin's only alternative, according to the government newspaper, is "to break definitively with the democrats and the course which has led to the collapse of the country, ... declare himself the creator of Great Russia and become a life-long president with the backing of the coercive and administrative structures of the government".

Neither option can be particularly attractive for a man who, a little less than four years ago, appeared to be the leader who would bring Russia a new kind of strength as a modern, democratic nation with a thriving, western style, capitalist economy. Paradoxically, now that Mr Yeltsin's regime has succeeded in laying the communist ghost to rest, this dream scenario seems increasingly improbable.

■ **Profile:** COMMUNIST LEADER GENNADY ZYUGANOV

Red but far from dead

Gennady Zyuganov and a fervent supporter: presidential hopeful for 1996 Picture: AP

Four years after the collapse of the Soviet Union, Russia's communists are girding themselves for this year's regional and parliamentary elections and aiming for a return to the political mainstream.

The communist party of Russia, which was shattered, reviled, and banned in the wake of the failed 1991 coup, expects to emerge as one of the biggest political groupings after December's parliamentary elections and is likely to field a powerful presidential candidate to 1996. The person largely responsible for this transformation is Mr Gennady Zyuganov, its stocky pudgy-faced 50-year-old leader.

A lifelong communist, Mr Zyuganov has proved himself to be a combative speaker, wily tactician and capable organiser. Stripping communism of its "foreign" influences, Zyuganov has succeeded in shaping a more overtly nationalist programme producing a heady political brew for Russia's disenchanted and dispossessed.

The party's chief aims are to "establish the power of the workers and patriotic forces, preserve the integrity of the state, to revive the union of Soviet peoples and to ensure the national unity of the Russian people". It has become an effective mouthpiece for those suffering in the industrial wastelands and agricultural heartlands of modern Russia.

Mr Dmitry Volkov, political commentator on the *Sevodnya* newspaper, says the party draws on a sense of nostalgia for the simple certainties of the Soviet Union but also offers electors a greater sense of security about the future. "People are sick of ideology. They do not want communism but many do want the social protection which communism appears to offer," he says.

Mr Zyuganov's communist party claims to have 550,000 members giving it the broadest base of any of Russia's political groupings. Newspaper reports suggest that Mr Zyuganov is already trying to coax that organisational base to strike electoral deals with other presidential candidates.

The rumour mill suggests Mr Zyuganov is even talking with Mr Grigory Yavlinsky, the radical economist and self-declared presidential aspirant who heads the Yabloko faction, offering to support him in the second round of voting if a communist did not make it through the first.

Other communist party leaders talk of alliances with women's groups, protest movements of cheated investors, the agrarian lobby and organisations of army officers.

The party has played a prominent role in the anti-war movement stirred up by the invasion of Chechnya. While the liberal democratic groupings, such as Russia's Choice, have splintered over their opposition to the Chechen conflict, the communist party has used it as an effective rallying cry. There are also about 70 other communist parties of various views in Russia – including Mr Viktor Anpilov's notoriously hardline grouping – with which Mr Zyuganov's party has a loose coalition of interests.

Born during the second world war in the Oryol region, Mr Zyuganov joined the communist party in 1966. The diehard ideologue then followed a typical career path in the local party rising to become a member of the national party's central committee. He was one of the leading party opponents of Mr Mikhail Gorbachev's reform programme publishing a series of damning articles in the *Sovyetskaya Rossiya* newspaper.

His platform still revolves around a series of timeless all-embracing communist slogans. But the party has partly reconciled itself with the market and the moderate wing of the party now has a decidedly social democratic tinge.

Mr Oleg Mironov, one of the party's leading members, even appears to be converted to the school of small government in promising the party would cut the over-sized state apparatus if it won the parliamentary elections.

But although the communist party is proving an effective force in opposition there is little evidence that its programme represents a credible basis for political action. In a scathing article in *Izvestia*, Mr Otto Latsis, the liberal newspaper's leading commentator, recently savaged the party's policies as a case of "Forward to the past!"

"They simultaneously promise to lower prices and increase wages, to strike out at inflation and unemployment, to guarantee in every way the rights of the workers and peasants, servicemen and academics, grandparents and the young, employees and pensioners, the Russian people and other nationalities. And the mechanism for this promised miracle: state regulation," he wrote.

Mr Latsis depicted a party that was incapable of positive solutions because the results of its disastrous 74-year experiment were still too fresh in the memory. Instead it had to build its support on a negative base simply criticising the current powers for their failings.

Rival politicians also criticise Mr Zyuganov for the company he keeps. The communist party leader often shares a platform with extremists of many hues fishing in the same political waters as Mr Vladimir Zhirinovsky, the ultra-nationalist leader of Russia's inaptly-named Liberal Democratic Party of Russia.

This tactical flexibility may be condemned as unprincipled by the party's opponents but it could yet enable the communists to achieve their target of winning 25 per cent of the votes in the forthcoming parliamentary elections.

Reformed communist parties have made a strong electoral showing in other central and eastern European countries. Mr Zyuganov has ensured that far from being consigned to the dustbin of history, Russia's communist party will be impossible to ignore.

John Thornhill

■ **Bruce Clark** salutes the finesse of Moscow's new diplomacy

Back in the game of nations

"Russia is destined by her geopolitical position to be a great power, and it does not befit her to engage in self-reproach."

THESE are not the words of some stern conservative critic of President Boris Yeltsin, but the new voice of the Muscovite mainstream: in this case, a policy statement from the Russian Unity and Concord Party, headed by a deputy prime minister, Mr Sergei Shakhrai.

As Russia grows in confidence, and the pro-Western euphoria that followed the fall of communism rapidly ebbs, ideas about foreign policy that were once confined to the nationalist end of the ideological spectrum are passing into conventional wisdom.

In the early days of Mr Yeltsin's presidency, when he was committed to a full-blown alliance with the US, one had to scour Moscow's hard-line press to read the argument that the US was taking cynical advantage of Russia's post-communist weakness.

Now that view can be heard on the lips of middle of the road commentators and policy-makers, along with many other opinions that have just become respectable.

Two key arms agreements – the Start-2 accord on long-range nuclear weapons, and the treaty on Conventional Forces in Europe (CFE) – are now seen across a wide band of Muscovite opinion as products of Russia's temporary decline, which need to be reconsidered now that recovery is underway.

Other newly respectable sentiments include a feeling that post-communist Russia was too quick to join in Western-inspired sanctions against its traditional friends, from Serbia to Libya to Iraq; a wish for closer relations with countries to Russia's immediate south, especially India; and among Russia's Western partners, a strong preference for Germany over the US.

From a Western viewpoint, a string of Russian diplomatic successes – highlighted by Mr Yeltsin's admission last summer to the Group of Seven summit in Naples – was rudely interrupted in December by the onslaught on the separatist enclave of Chechnya.

The indiscriminate use of aerial bombardment, and the lack of all civilian control over the operation, seemed to the West to be in direct violation of accords on the proportionate use of force which had been agreed at the European security summit in Budapest only days earlier.

After some initial hesitation, both the US and the European Union came to the conclusion that Russian behaviour in Chechnya had cast a shadow over Russian-Western relations as a whole.

Yet Russian policy-makers, including those who have criticised the war in Chechnya, see the cooling of relations with the West through a different light. They blame the US – particularly the new Republican majority in Congress – for seeking trouble with Russia.

They see the US as the main force behind efforts to enlarge Nato, a project for which – in Moscow's assessment – there is little real enthusiasm in Western Europe; and they also resent Washington's use of non-proliferation arguments to obstruct Russia's exports, from rocket sales to India to a proposed transfer of nuclear technology to Iran.

If anything, the European Union has probably shown greater toughness over Chechnya – by putting a trade agreement on ice – than the US; but rightly or wrongly, Russian officials seem more confident of overcoming the EU's objections than they are of mending fences with the US.

Mr Andrei Kozyrev, Russia's soft-spoken foreign minister, has shown dexterity in adapting his language and style to the new mood of self-assertiveness, particularly towards Washington.

"The honeymoon is over," he bluntly told Mr Warren Christopher, the US secretary of state, in Geneva in March.

The darkening US-Russian atmosphere was highlighted by the litany of concerns voiced recently by Mr Vladimir Lukin, chairman of the foreign affairs committee of the Russian Parliament.

Kozyrev with US Secretary Christopher: 'the honeymoon is over'

Mr Lukin has linked the ratification of Start-2 with many other issues, including Nato expansion – which Moscow strongly opposes – the future of the CFE, US plans for new anti-missile defences, and the general US-Russian climate. "I wouldn't risk presenting the Start-2 accord to Parliament for ratification at a time when we [Russians] are not being taken into proper account," he has said.

All this provides a murky background for President Bill Clinton's visit to Moscow next month to attend celebrations marking the 50th anniversary of victory over Nazi Germany.

Mr Andrei Kortunov, deputy director of Moscow's US and Canada Institute, sees little prospect of a breakthrough at a time when both Presidents are handicapped by domestic pressures. "All the easy things in US-Russian relations have been done already," he says.

In Mr Shakhrai's manifesto, there is a revealing list of priorities for external relations: first, military and economic integration among the ex-Soviet republics; second, better relations in the Asia-Pacific region, particularly China and Japan; and third, a European security structure in which Russia plays a full part. The idea of a foreign policy oriented mainly to the US is dismissed as outdated.

Arguably, this Asian vision of Russia's future says more about fantasy than fact. Western Europe remains Russia's biggest trading partner, accounting for about half its exports; and the cold war has left an enormous amount of business to be done with the US, particularly in arms control and non-proliferation.

Ties with Japan are still bedevilled by a territorial dispute over the Kurile islands; and links with China, a promising trading partner and arms customer, have been complicated recently by local squabbles over border demarcation and migration.

Yet the renewed interest in Asian partnerships, throughout the Russian establishment, is unmistakeable: where free-market economists are fascinated by the success of Japan, a growing pro-authoritarian lobby is frankly admiring of China's ability to achieve rapid growth while shrugging off Western lectures on human rights and political reform.

In practice, Russia seems unlikely to do anything so clumsy as make a straight choice between its relations with Western Europe, Asia and the US. To judge by the increasing sophistication of non-communist Russia's diplomacy, Moscow will probably continue to play one partner against the other with consummate skill.

Chrystia Freeland studies Russian attitudes to the other CIS states

Cautious farewell to empire

The term Russians use to describe the other former Soviet republics, "the near abroad", betrays Russia's larger failure to regard the territories once ruled by tsars and communist commissars alike as entirely foreign.

Russian leaders still feel they have a natural right to influence the other former Soviet republics' foreign and defence policies and in some cases even intervene in domestic issues. This sense of entitlement is strengthened by the presence in the newly independent states of 25m ethnic Russians, who have become minorities where they were once masters.

Mounting domestic calls for the consolidation of "Great Russia" might be expected to inspire Moscow to take an even tougher line with its former Soviet brethren. Indeed, one reason why those former Soviet republics which feel most vulnerable to a resurgence of an expansionist Russia, such as Estonia, reacted so vociferously to Moscow's military intervention in Chechnya was their fear that the war in the Caucasus foreshadowed the rise of a more broadly neo-imperialist Russia.

But, instead, Russia's attitude towards its immediate neighbours appears to be developing along more subtle lines. Three years after the collapse of the Soviet Union and the emergence of 15 independent states in its place, a policy of what might be termed pragmatic imperialism is emerging in the Kremlin.

Russian leaders continue to believe that they should be first among equals in the territory which once formed the Soviet Union, but they are learning that they can exert more influence in the weaker states and less in the stronger ones; that, in many cases, reabsorption of other former Soviet republics might not be worth the cost; and that the more oblique tools of economic dominance can be more effective than demanding outright political hegemony.

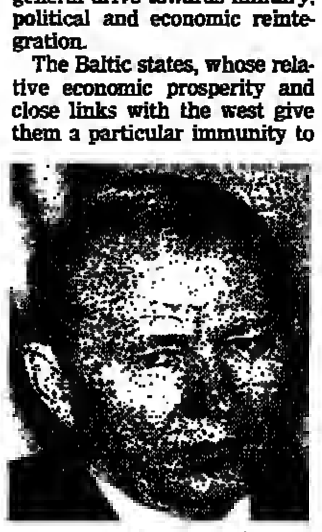
The first rule of Russia's emerging doctrine of pragmatic imperialism is to differentiate among the newly independent states of the former Soviet Union.

The weaker states – the Central Asia republics, the Caucasus and Belarus – are less able to resist growing Russian influence and in many cases openly welcome it. Thus, earlier this year Russia, Kazakhstan and Belarus agreed to form a customs union and Kazakhstan and Russia took the radical decision to combine their armed forces.

Mixed feelings: a departing Russian soldier and his Estonian sweetheart

But the stronger former Soviet republics are successfully resisting what many Russian and central Asian leaders had hoped would be a more general drive towards military, political and economic reintegration.

The Baltic states, whose relative economic prosperity and close links with the west give them a particular immunity to Russia's reintegrationist pull, refused to join the Commonwealth of Independent States (the CIS), the body which loosely affiliates the remaining 12 former Soviet republics, from the outset. The three Baltic states are totally deaf to calls from other CIS states for military, political or customs unions, preferring to develop ties among themselves and with the west.



Ukrainian President Leonid Kuchma: firmly independent

Within the CIS, Ukraine, seen by many Russians as a natural constituent of Greater Russia, is proving to be the state most strongly committed to its fledgling independence. Russian leaders had hoped that Mr Leonid Kuchma, who won the race for Ukraine's presidency last summer, would be more amenable to reintegration than his predecessor, Mr Leonid Kravchuk. But, instead, Mr Kuchma, who campaigned on a broadly pro-Russian platform, has emerged as a stalwart defender of the elements of Ukrainian sovereignty.

Following the example set by Mr Kravchuk, Mr Kuchma has refused to join any CIS agreements which would infringe upon Ukraine's independence in foreign policy and defence. Kiev has even assumed a sceptical stance on economic links, which Mr Kuchma broadly endorses, because of its contention that the CIS is an ineffectual institution and one in which Russia exercises undue influence.

On the eve of the most recent CIS meeting, which Russian and Kazakh leaders had been trumpeting as an opportunity to set real reintegration into motion, Mr Kuchma offered the decidedly downbeat opinion that "a shapeless organisation like the CIS has no future". In a broadside against the Russian leaders who had hoped Mr Kuchma would be their man in Kiev, he added that, "at the moment we are playing with one set of goalposts. Russia is standing at the penalty spot and scoring goals against everyone."

Paradoxically, Moscow's current obsession with consolidating its own statehood has provided a window of opportunity for former Russian vassals, such as Ukraine, who are keen on entrenching their own independence. This was most clearly demonstrated last month, when Ukraine used Russia's entanglement in Chechnya as political cover for its own efforts to clamp down on pro-Russian separatists in Ukraine's Crimean peninsula. In the past, Russian leaders have backed Crimean separatists, but last month, alive to the parallels between Ukraine's bloodless assertion of authority over Crimea and Russia's brutal war in Chechnya, senior Russian officials said that Crimea was Ukraine's internal affair.

The second rule of pragmatic Russian imperialism is that total reabsorption of the former Soviet republics, even those which are clamouring to re-enter the Russian fold, may not be in Moscow's economic interests. This has been the lesson of Russia's relations with economically backward Belarus.

Proposals for a currency union between the two Slavic states faltered last year after Russian officials realised that readmitting Belarus into the rouble zone would put an additional brake on their efforts to halt the rouble's headlong inflationary slide.

Russia's reluctance to allow economically weaker former Soviet republics back into the rouble zone has become so powerful that even Mr Nursultan Nazarbayev, the Kazakh president who is the leading advocate of full economic reunion, admitted this year that the opportunity to recreate a single currency had gone.

Economic considerations also form the basis of the third rule of pragmatic Russian imperialism. As market reforms have taken fragile hold of the Russian economy, Moscow's leaders have begun to understand that they can ensure Russia's continued dominance over the former Soviet republics through the less obtrusive levers of economic control, rather than insisting on outright political and military suzerainty.

An example of this tendency is Russia's insistence that Russian companies with close links to the government be cut in on the big deals in the oil-rich Caspian region. Another is the emerging policy of Gazprom, Russia's monopoly natural gas exporter, to propose debt for equity swaps to the former Soviet republics which have accrued massive unpaid bills for their natural gas.

Even stubbornly independence-minded republics such as Ukraine appear to be reaching the conclusion that this new pragmatic form of Russian influence is inevitable, and perhaps not entirely unwelcome. In an effort to reassure the Ukrainian people, whom more than three centuries of authoritarian rule from Russia has made wary of Russian control in any guise, Mr Kuchma insisted last month that "there's no great difference between dollars and roubles" when they are invested in the Ukrainian economy.

John Thornhill treks to Vladivostok, Russia's most easterly city

A settlement in Asia

Vladivoetok's wonderful natural harbour, its hilly terrain and dazzling light have led many visitors to describe it as the San Francisco of Russia's far east.

The region's distance from the country's capital and its growing reputation for quirkiness – epitomised by the Hare Krishna vegetarian restaurant on Vladivostok's main street and the population's growing obsession with UFOs – are also beginning to lend the area the somewhat raffish feel of America's west coast. But local Russians tend to view their city in a far less rosy light. Vladivostok, they say with grim humour, only resembles San Francisco after the earthquake.

There is little doubt that the economic dislocation and social disorientation caused by the collapse of the Soviet Union in 1991 have badly shaken Russia's far east.

The military-industrial complex, on which the regional economy was largely built, is in crisis. The region's fishing, timber and coal industries are also in upheaval. Industrial production fell 17 per cent in 1993 and is still sliding. The far east, which had a reputation as one of the more closed and conservative regions, hae been struggling to find its place in the chaotic free market world.

The region's politics have also been unsettled. Mr Evgeny Nazdratenko, governor of the Primorsky Krai, which embraces many of the biggest cities of the far east, has been fiercely criticised by some of Russia'e liberal democratic parties for his arbitrary and authoritarian rule. A criminal mafia, which quickly established itself after the collapse of the Soviet Union, has acquired considerable pull in the region.

In Moscow, politicians fear that the weakness of the central state may tempt the far east into separatism. Bnt viewed from the far east, the region's adherence to Moscow is easier to understand.

With just 8m people living in an expanse of territory the size of western Europe it is little wonder the inhabitants feel agoraphobic. Surrounded by fast-growing Asian tiger economies eagerly eyeing Siberia's natural resources, the inhabitants of Russia's far east are strong believers in a unitary state. Mr Nazdratenko freely plays the nationalist card periodically expelling Chinese immigrant workers and condemning a recent inter-governmental border agreement which, he claims, concedes too much to Russia's southern neighbour.

On the waterfront: Vladivostok has the raffish feel of America's west coast

But what local Russians tend to view as their biggest political threat could also turn out to be their greatest economic opportunity. Many observers believe that Russia's far east cannot fail to flourish in the long run, nestled as it is between the dynamic economies of China, Korea and Japan.

Mr Sergei Frank, finance director of the Far East Shipping Company, the leading transport company in the region, is optimistic about the potential for development. "The region is ideally located being very close to the most serious and fastest-growing economic development in the world," be says.

The 8m citizens in an area as big as western Europe feel agoraphobic

The region's many ports, inclnding Nakhodka, Vostochny, and Vladivostok, will become the natural gateways through which Siberia's vast riches will pass into the world market. They may also be the windows through which exports from the Pacific Rim travel to western Europe.

CSX Corporation, the US transport group, is already investing in upgrading the Trans-Siberian railway route. The railway claims to be able to deliver goods from Japan to Finland within 25 days – considerably faster than the alternative sea route.

A series of oil projects on Sakhalin island, which would provide Japan with much-needed energy, could also transform the region's economy providing a vast injection of investment.

Mr Frank says economic gravity is already beginning to exercise its pull and argues that the regional economy may already be doing far better than any of the official statistics reveal. He points to the fact that the vast majority of the cars on Vladivostok's streets are imported Japanese models, that there are now three airlines regularly flying full flights between Vladivostok and Moscow, and that some of the most active banks in Russia are based in the region.

The far east certainly has ambitions of becoming a leading financial centre. The Vladivostok International Stock Exchange, which was founded in April 1992, is one of the most active in Russia and recently scored a notable coup by becoming the chief centre for trading the shares of Gazprom, the giant Russian gas group.

Mr Viktor Sakharov, the genial former biologist who helped found the exchange, says: "Our market acts like a vacuum cleaner sucking up all the most important shares in the far east, Siberia and the Urals. We are trying to become the second financial centre of Russia."

Like many other Russian stock exchanges, the VISE is hampered by a lack of market infrastructure and only taps a relatively small proportion of all trsdes with the majority still being bought and sold in over-the-counter markets. The market has also fallen from last year's highs as foreign portfolio investors have turned tail because of the uncertainties of Chechnya and the aftermath of Mexico.

But Mr Andrew Fox, managing director of Pacific Gemini, an international fund management group active in the region, says Russia'e far east still boasts many attractive investment opportunities. "Buying shares in some Russian companies is like betting in a casino. But here you have companies with real assets – such as fishing, shipping and port companies – which are run by people who know what they are doing and are close to dollar earnings. It makes things more comfortable here," he says.

Russia's far east may have utterly failed to exploit its natural advantages under the communist regime but it is only slowly waking up to its present possibilities.

Mr Hideki Asahi, the Japanese consul general in Vladivostok, says, "When the region first opened up three years ago Japanese businessmen rushed to come here and open offices. But they have been disappointed because they cannot produce a profit in the area and some companies are starting to retreat from this market."

As with the rest of Russia, the economic transformation of the far east is likely to prove a long and tortuous process.

■ Bruce Clark reports on the army and the war in Chechnya

The weakness is unmasked

Historians of the Russian military may look back on the war in Chechnya as an operational nightmare that needed to happen.

Nearly three years after the Russian Federation started assembling its own armed forces out of the Soviet wreckage, they are engaged in a hellish, brntalising war against separatist forces in the enclave of Chechnya.

The conflict has shaken the west's image of Russia, and revealed how large sections of the country's forces were undermanned, poorly trained and demoralised.

An exception to this picture is provided by elite units – paratroopers, marines and special forces – where combat readiness appears to have remained intact throughont Russia's recent upheavals.

But this contrast between pockets of excellence and huge areas of disorganisation, so badly exposed by the Chechen war, has had an effect which few predicted: it has finally created a climate in which full-blooded military reform appears possible, perhaps inevitable.

The conflict's initial impact was to trigger a wave of anti-war protest among Moscow's dwindling band of liberals and the distrangbt mothers of missing conscripts.

But the longer-term consequence bas been to build a consensus – among politicians and opinion-makers who bardly cared abont military matters before – that the forces must be reorganised and strengthened, as far as the economy allows.

The army's travails in Grozny have also raised the stakes in the struggle between General Pavel Grachev, the defence minister, and his rivals, some of whom want to change Russia's political as well as military leadership.

The londest critic of bungling in Chechnya is probably General Alexander Lebed, charismatic commander of the Russian garrison in Moldova. He worked closely with Gen Grachev, a fellow paratrooper, in Afghanistan; but old comradeship has not restrained Gen Lebed from lashing out over corruption and mismanagement.

Gen Lebed described the Russian force that moved in on Chechnya as "a shapeless and disorganised group of men which does not know where it was going". This is the sort of blunt language which bas made him a folk hero. When told late last year that a commander was coming from Moscow to inspect his garrison, he growled: "There's nothing here for him to steal."

Despite these barbs from his old friend, Gen Grachev has, like his mentor President Yeltsin, shown a remarkable ability to survive. Several of his rebellious deputies at the ministry have been removed or pnebed sideways: these inclnde the formidable General Boris Gromov, who was recently reassigned to a post at the foreign ministry.

But the need for effective military reform is no longer in qnestion; the only issne is whether the current leadership will carry it out, or pay the cost of failure.

General Pavel Grachev: defence minister on the defensive

For the last three years, the regular armed forces have been hard pressed to survive at all. A plunge in state funding bas rednced hundreds of thonsands of service families to penury and forced them into desperate stratagems, including unregulated, back-door sales of weapons to all comers.

Economics have made conscription harder to enforce. The nation's youth is shunning the rigours of the Russian barrack-room, where 2,000 accidental deaths were recorded last year, in favour of the blandishments of capitalism.

Less than 20 per cent of draft-age youths are joining up, and in Moscow the figure is under 10 per cent. In some units, the ratio between officers and soldiers is about one to one, so that officers have to guard weapons and stoke boilers.

The size of the armed forces, which at the peak of Soviet glory stood at over 4m, is in dispute. President Yeltsin has said the ideal strength would be about 1.5m – one in 10 of the population – while Gen Grachev said recently that 1.7m was the optimum number.

Russian media reports suggest that the current size of the regular forces is abont 1.9m. Most Western experts believe this figure to be an exaggeration, although a German study last year suggested the real number was higher.

At least 30,000 troops, inclndiog regular soldiers, interior ministry peace-keeping troops and forces of the FSK counter-intelligence service, have been involved in suppressing the Chechen rebellion.

Rnssia acknowledges the loss of nearly 1,400 of its own men and claims to have killed more than 7,000 Chechen fighters. Western estimates put the number of civilian deaths at many thousands; mnch of Grozny, a once-bustling town of 400,000 people, has been redneed to wasteland.

The brutishness of the campaign's opening phase brought home to the world how little progress has been made in reforming Russia's forces since the withdrawal from eastern Europe and the collapse of the old war economy.

Since 1992, when Russian commanders absorbed the shock of "losing" thousands of aircraft, tanks and artillery pieces to the newly independent republics of Ukraine and Belarus, the purpose of military reform has been clear.

In theory, the army was supposed to be remade into a leaner, meaner fighting machine out of which mobile units could be assembled and despatched at short notice to places where the interests of Russia – or Russian communities – were under threat.

In practice, the assault on Grozny showed up an ntter lack of coordination between the various forces which make up the Russian military. While the world was horrified by the toll among civilians, commanders bad another complaint: abysmal communication between the air force, army and interior ministry wae causing "friendly-fire" casualties and playing into their adversary's hands.

The worst miscalculation was a New Year assault on the centre of Grozny when an armoured column narrowly escaped total destruction. Only in mid-January, as thousands of paratroopers and naval infantry arrived in the war zone, did the level of competence improve.

Now, for the first time in many years, there is a widespread sense that the nation cannot afford bungling, embezzlement and squabbles among senior commanders.

The Soviet withdrawal from eastern Europe was arguably made possible, in human and political terms, by turning a blind eye to wildcat commercial activity, from half-starved privates selling their badges to multi-million dollar deals over airfields and property in Berlin.

Bot now there is a palpable feeling that corruption has gone far enough. A wave of ontrage was triggered last autumn year by the booby-trap killing of Dmitry Kholodov, a young journalist investigating malpractices in the military.

A strange coalition of right and left has come together to demand that the top brass serve themselves less and the nation better. Sevodnya, a progressive Moscow daily, recently pnblished a long, sympathetic interview with General Vladislav Achalov, former commander of airborne forces, now head of a hard-line officers' lobby, on tha mistakes of Chechnya.

He disclosed that the paratroopers, the cream of Russia's forces, had lost 992 men during nine years of war in Afghanistan – and 186, inclnding 28 officers, in the first 40 days of fighting in Chechnya. The full political effects of these extraordinary figures have still to be felt.

John Lloyd assesses the ethnic threats to rule from Moscow

Regions strain at the leash

The war in Chechnya, continuing as this survey is written, is a dramatic pointer not just to the ruthlessness of the Russian authorities but to their inability, so far, to construct a federation of regions and republics within Russia on a coherent and stable basis. The rationale for Chechnya – that it was a necessary brutality to keep the Federation together – could only hold if the Federation itself were rationally shaped. So far that work has not been seriously attempted.

Chechnya was the sole member of the Federation of 89 republics, regions and districts to secede formally and completely, claiming to have established a new subject under international law (which was recognised by no other state). However, the rest of the Federation is composed of regions which have either formally or in practice taken a very large degree of autonomy bnt stopped short of declaring independence. It is in these relationships that Moscow's largest problem lies: how to re-configure them into a modern and well functioning state.

The Communist period, still blamed for most evils, was indeed responsible for at least the origins of this one. Lenin and Stalin prescribed for the Soviet Union, and for the largest part of it, the Russian Federation, a form of "federalism" which depended on the assignment of territory within defined borders to the titular nationality living on it – together with organs of government which matched those of the state itself.

Thus, within Russia, there were created around 20 (it varied over time) "national republics", in most of which the titular nationalities were outnumbered by the Russians but nevertheless enjoyed a special status, which usually meant occupying the more ceremonial leadership functions.

The Russian regions, or "oblasts" and "krais", were more like conventional states in a federal country such as the US or Germany: they had parliaments (supreme soviets) and governments, with a panoply of rights and duties. Within these could he sub-regions, again with an apparatus of legislative and executive organs, which were subordinate to the regions but had a status of their own. It was cumbersome and expensive, but served to simulate a democratic order.

This edifice was both sham and real. Sham, in that the most important organisations in them were branches of the Communist Party, in turn subordinate to the Central Committee in Moscow (which tightly circumscribed freedom of action). Real, in that borders and governing structures were created within which some kind of state formation (albeit stunted) was taking place, and which provided the skeleton for efforts to form real states once the Soviet Union had collapsed and central authority in Moscow had proven to be weak.

It will be several more years before the centre-region relationship is properly regulated. There will be more struggles – preferably less bloody than Chechnya

As throughout the former Soviet Union, the race has gone to the strongest. Tatarstan and Bashkortostan, neighbouring republics several hundred miles east of Moscow, are oil-rich areas which unusually contribute more to the federal budget than they demand from it and used the leverage of their wealth to proclaim constitutions and to secure treaties from Moscow which give them the right to conduct negotiations with third parties, withhold taxes for their own use and enjoy a range of economic controls (as price subsidies and different privatisation regimes) over which Moscow has effectively little say.

These provide models for the rest of the republics – especially those with substantial resources of their own, such as Yakutia or Komi. The ambitions of the new elites in these republics – often at least elements of the old elites who have been clever and flexible enough to make the transition to the new order – are power and wealth: both require the maximum of control of their own affairs.

In the regions, large natural resources help achieve de facto autonomy, as does distance. The leadership of the Far Eastern Region (Primorskye Krai) has essentially been able to treat the area as its personal fief, collaborating with the enterprise directors in a privatisation exercise which has yielded vast wealth to the administrative class, and quashing dissent with the use of the local militia. The central authorities, informed of the situation in the region by a powerful report drawn up by the main democratic parties, have so far refused to intervene.

The central power can even be challenged in its own seat of Government. Moscow city, always seen as one whose control had to be ensured (and thus awarded a seat in the Politburean in Soviet times) is now strong enough relative to the constrained nature of central authority to challenge it and survive. Under Mayor Yuri Luzhkov, Moscow has achieved exemption from the federal privatisation provisions, developed its own system of taxation and profited hugely from the massive concentration of foreign capital and businesses since the end of communism.

This state of affairs is deeply unstable for two main reasons. First, the differing laws, regulations and practices which have flowed from the sub-federal authorities have immensely complicated the spread of private businesses, contributing greatly to limiting their scope to Moscow or to the city of their origin. The "specialness" of each regional and local regime means that the companies which are struggling to develop out of the ruins of the state enterprises are restricted to their own localities and in turn repel those from others. The result is a capitalism which cannot yet produce large and competent companies in its own country and which are thus hobbled in any bid to challenge multinationals.

Second, it permanently weakens the federal power and provides ammunition to all opposition parties seeking to replace the administration of President Boris Yeltsin. The building of the new Russian state is one of the fundamental tasks of the Russian presidency and government: if it demonstrably cannot gather taxes, ensure the execution of its laws and ensure the safety of its citizens because of the resistance of regional leaders, it is exceedingly vulnerable to the charge that it should be replaced by an administration which can.

This is the situation in which the Yeltsin administration finds itself. In its defence, it can point to a constitution which begins the regulation of federal-regional relationships: it can claim that the challenges posed to it in 1992 and 1993 by the threatened secession of Tatarstan have been defused by the conclusion of a treaty (copied by Bashkortostan). And it can show that, when the challenge to statehood was extreme, as in the case of Chechnya, it took tough action to ensure the state's integrity.

These are insufficient – even though it is hard to see what concrete steps any of the opposition parties might take to improve the situation. At the root of the problem is the dissolution of effective authority, the concentration by all levels of power on self-enrichment and the lack of effective public pressure to make authorities really accountable to electors.

The Russian revolution has some years longer to run before the centre-region relationship is properly regulated: there will be further struggles, preferably lese bloody than Chechnya, before it is.

■ **Dmitry Volkov,** a Moscow columnist, sums up the people's mood

Weariness in a cold dawn

The people are tired – this is the answer you will get if you ask how Russians are feeling about reform, politics, democracy, crime and corruption – everything beyond their own homes. The nation has gone from a state of amazement at how hrave it can be – attacking communism, breaking with orthodoxy, fighting for freedom – to realisation that the new reality is about day-to-dsy survival. Russians can still get angry, maybe violent, hut not over a conflict of ideologies. Today's protests are against low living standards and corruption.

Welcome to the home of a new Russian, not a shady huslnessman, hut an industrial worker who has been laid off and is buying a new car with the money he raised selling potatoes grown on his small private plot of land. Of course he is tired. This has been, and will continue to be, a traumatic transition.

In Russia, and in many of the other former Soviet republics, the answer to this new social climste is dictatorship. Democratically minded politicians feel indignant about it, but there are no strong protests against the trend. The Kremlin has been disillusioned by Russia's new generation of democratic politicians. Sometimes called the August draftees, they are the young leaders with a strong commitment to democracy and human rights who during the failed hardline coup of August 1991 massed around the White House on tbe Moskva river embankment to protect wbat they saw as nascent democracy and freedom embodied in Mr Yeltsin.

But the August draftees lost tbeir political cbance in tbe December, 1993 parliamentary elections. Despite Mr Yeltsin's wholehearted support for their political battle against the communists and nationalists, tbe democrats failed to persuade the voters.

For the president's team this meant a very simple thing – to remain in power tbe presideot's men had to abandon these weak, unpersuasive and undisciplined allies. In the summer of t994, it was already becoming clear tbat Mr Yeltsin was looking for firmer ground to stand on than traditional western-style liberalism. Nationalists, after all, had won widespread support at tbe polls. Perbaps eveo more important in tbe Kremlin's cooslderations was the fact that nationalism coupled with etatism makes it possible to disregard popular discontent.

On the Amur river in Siberia: a new day, but the dawn is somewhat chilly — Financial Times picture

Placing a priority on law and order gives the government an opportunity to ignore dissenting opinions and to crack down on political minorities. Nationalism and etatism are finding powerful constituencies in the Russian elite. The army, the managers of crumbling industries and the security services have a longstanding grievance with the Kremlin for allegedly selling the patrimony to the West, destroying its defence and industrial potential and so forth. Most of tbese elites have indicated that tbey would not insist on the removal of Russia's present lesders, if the Kremlin were to change its attitudes. So it did.

Furthermore, a new dictatorship may be viewed as a far more efficient way to lead the country out of its current crisis, restructure its economy aod clamp down on violent crime. A number of experts with liberal ideas about economy have argued for a move from chaotic unruly democracy to a strong state ruled unwaveringly by a sober and educated leader. Eveo sobriety is not essential if tbe leader agrees to be cootrolled by these experts. They promise to remain sober enough to advise him wisely.

Russia's most recent political developments – tbe military crackdown in Chechnya, the promise to figbt political extremism with police power, recurring threats against the mafia and corruption – may signal that all tbe elements necessary to establish an educated dictatorship are in place.

Of course, tbis nascent regime needs formal recognition, and there are two ways to achieve it. One is to hold controlled elections whicb would bring in a submissive parliament and legitimise a president designated hy the present Kremlin clique – be it Mr Yeltsin or somebody else. Another is to find a legitimate excuse to cancel elections. Mr Yeltsio may stay or he may go, hnt if he is to have a successor, it will only be one appointed hy the ruling oligarchy.

Tbere is a long list of top-ranking officials, ranging from Mr Vladimir Shumeiko, chairman of the upper chamber of parliament, to the secretive officers of the Security Council, effectively, the polithuro of the new Russia, to officials in the president's administration, who publicly and privately speak in favour of cancelling elections. The people are tired, they tell tbe people. We are tired of being accountable to tbe people, tbey say off the record.

Eveo more importantly, powerful Muscovite bankers bave joined the cborus. The views of the banking community may be even more revealing than statements by politicians and parties. The big players there represent the real rulers of the country, some with a criminal background, others sprouting from so-called specialised state banks and servicing key industries. All are corrupt in a sense that close ties with government officials are at least as important for their business as the ability to manage money.

A free-for-all competition between these groups – formed sometimes on a regional basis, but also within branches of industry or, unfortunately, through the influence of gangsters – has worried the country's leadership. The so-called Moscow group operating in close alliance with the capital's powerful mayor, Mr Yuri Luzhkov, was seen as a potential threat both by its rivals and by the Kremlin. As a consequence, it was singled out for attack hy Mr Yeltsin's head of security, Gen Alexander Korzhakov, not in the least to serve as an example of how uncomfortable any single financial group in Russia will be made to feel if it doesn't make a deal with the presidential entourage.

Geo Korzhakov, as well as other figures personally dependent on Mr Yeltsin, seem to bave become very concerned about the political succession. The president's men realise they have no political future if Mr Yeltsin leaves his post and the next man in line does not want their services. Therefore, worried as they are about their boss's fate, Mr Yeltsin's intimate friends and armbearers are equally concerned about controlling the queue to the presidential seat.

In this regard, the attack on Mr Luzhkov and his banking allies has heen a success. There are clear signs that consultations between the biggest banks and the regime are well underway. The chosen financial groups are promising to use their resources to help the regime avoid elections or, if this fails, to fund the Kremlin's chosen candidates. The government, in return, has indicated that it is prepared to give the financiers exclusive rights to manage the economy and eliminate competition.

The offspring of this union between Russia's political masters and its financiers may not be a liberal society with a free market and s meaningful democracy. On the other hand, it is not likely to revert to rigid Soviet totalitarianism. The economy, observers claim, sbows signs of invigoration. There will be no need to threaten people with labour camps if they can be lured into scquiescence with s little hit of bread, butter and no shoot-outs in their backyards. In fact, the people would probably like this for a change.

Of course, the state is likeiy to remain corrupt, and grow even more so. But Russia is a country built on intimate personal connections rather than independent relationships governed by law. A Russian version of democracy would not eliminate corruption but instead increase the number of closely-knit clans, violently competing for scarce resources. If only one clan remains – the Kremlin clique – it may at least restrain its delinqnent adolescent members and rule the weaker gangs with an iron fist. It's a new day, although the dawn is rather bleak and chilly.

□ *Mr Volkov is political editor of* Sevodnya, *a Moscow daily*

■ **Profile:** OLEG BOYKO

Captain of high finance and business, aged 30

Enthroned in a black leather chair, behind a vast chrome and glass desk, Mr Oleg Boyko, chairman of the board of one of Russia's "big eight" banks, epitomises Russia's new breed of financiers.

The broad windows of his 12th floor office command a view of the Kremlin, the centre of political power in the new Russia, as it was in the old. On the ground floor, one of the flagships nf Russia's nascent private economy, a McDonald's restaurant, dishes out Big Macs to queues of eager Muscovites.

This dual proximity to the heart nf political authority and the more diffuse but growing power of Russia's sea of unsatisfied consumers is an appropriate setting fnr Mr Boyko, who owes his swiftly made fortune to an aptitude for judging the political and economic changes in Russia with equal skill.

> The empire he founded extends from retailing to wholesaling and banking

Just 30 years old, Mr Boyko is the founder and owner nf a business empire which spans the economic spectrum from retailing and wholesaling to banking.

The 60-odd companies which make up the Olbi conglomerate, an abbreviation for Oleg Boyko Invest, are judged by the Russian financial press to constitute one of the five top businesses in the country. Mr Boyko, whose stacks of western business publications suggest be is as fluent in his command of the western business world as he is of the English language, thinks his company is worth some \$1.5bn.

Olbi, which Mr Boyko is proud to point out has now turned the generational hierarchy upside down to employ his father and several uncles, is one of the almost overnight success stories which characterise Russia's fledgling capitalism.

Mr Boyko's vast concern has grown out nf a computer importing company he established in 1988 when he was one of the handful of pioneering businessmen who took advantage nf the tentative nvertures that Mr Mikhail Gorbachev's Soviet Union made to private entrepreneurs.

Since then, Olbi has blossomed with a speed which owes as much to Mr Boyko's adroit political judgment as it does to his business acumen.

"There is nothing strange about the fact that in Russia big business is close to the government," Mr Bnyko insists. A case in point is one of Olbi's most bitter rivals, the Most group, which nwes its equally spectacular rise in part to its close relationship with Mr Yuri Luzhkov, tha powerful mayor of Moscow.

But what is exceptional is Mr Boyko's ability – so far – to adapt to the ever shifting sands of Russian politics. It stands in sharp contrast with Most, whose fate has so closely mirrored the falling political star of Mr Luzhkov that Mr Vladimir Gusinsky, head of the Most group, has been forced into informal exile.

Mr Boyko attributes his ability to avert the disastrous consequence of political disfavour to Olbi's financial power. "The bigger you are the more independent you are," he says, "not becanse you are further from the government bnt because you are closer to it."

Two years ago, Mr Boyko became one of the first businessmen openly to enter the political arena by throwing Olbi's considerable financial muscle behind Russia's Choice, the country's leading pro-reform party, which was then closely linked to Mr Boris Yeltsin, the Russian president.

"I had had some success in business, so I thought, 'why don't I try politics'," Mr Boyko says of his decision to back Russia's Choice. "I'm young and I've never been a communist, so it was natural that I support the largest liberal tendency in the country."

But tbe situation changed this winter, when Russia's brutal and unfinished campaign to subdue Chechen separatists provoked a rift between Russia's Choice, which has been strongly critical of the war, and Mr Yeltsin. Sensitive to these new political winds, Mr Boyko has adeptly shifted his allegiances. He resigned from the executive of Russia's Choice, where he was formally second-in-command of the party, and has become one of the chief financial backers of Stahilnost, a newly formed parliamentary block known for its unswerving loyalty to the president.

"When the Chechen crisis happened, many leaders of Russia's Choice became hysterical," Mr Boyko says, by way of explanation. "They were talking about impeachment of the president and dismissal of the government. But I don't think you would get anything better. This was the main reason why I disagreed with some people in the party."

> A pragmatic politician, he has emerged as President Yeltsin's most loyal banker

Since then, Mr Boyko has gone even further. In what many observers think may be a trial balloon floated at the request of the presidential team, Mr Boyko has called for a postponement of parliamentary and presidential elections.

Mr Boyko's decision to position himself as the president's most loyal banker has drawn fierce criticism from some quarters. "Mr Boyko thinks that he has privatised ... the president himself and can now use him as his own 'informal' bodyguard," Mr Mikhail Leontiev, a prominent Moscow columnist, wrote last week.

As long as he manages to stay in the president's good books, and Olbi reaps tbe rewards of that political favour, Mr Boyko is unlikely to be too troubled by such accusations.

Chrystia Freeland

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FINANCIAL TIMES
COMPANIES & MARKETS

Monday April 10 1995

MARKETS
THIS WEEK

GERARD BAKER
GLOBAL INVESTOR
Tha pile of problem loans for Japanese banks seems to have peaked in the last year, but it still *remains disturbingly high*. Yet the banks have continued to report *profits*, by realising gains on equities they bought when the *market was much lower*. **Page 21**

ROBERT CHOTE
ECONOMICS NOTEBOOK
The UK government has been unrepentant in its attempts to grease the wheela of the labour market over the last 15 years. *Most* of the relevant initiatives can be interpreted as attempts to cut the cost of hiring and firing. **Page 21**

BONDS:
Prices of Brady bonds have risen sharply in the past month, prompting hopes that the worst may be over in the $135bn market. The bonds issued by emerging market governments in exchanga for distressed debt sank to all-time lows in early March but have since risen by some 18 per cent. **Page 22**

EQUITIES:
In New York this week there will be some hard numbers to put behind all the stock market wagers on a soft landing as companies begin to report earnings. In London, oil shares have been leading the charge and the FT-SE 100 Share list showed a *total* return of 3.8 per cent over the first three months of the year. **Page 24**

EMERGING MARKETS:
Turkey is very much the flavour of the month in dealing rooms around the globe. The Istanbul stock *exchange soared* last month, *bursting* through one record barrier after another. **Page 23**

CURRENCIES:
Market sentiment towards the dollar remains very pessimistic. Increasingly, though, investors and traders are beginning to wonder whether the US currency might be nearing a bottom. **Page 23**

COMMODITIES:
The new coffee export retention scheme agreed by producing countries last month is due to come into *operation tomorrow* – provided market levels do not rise dramatically. **Page 21**

INTERNATIONAL COMPANIES:
Générale des Eaux, the French water, construction and communications group, achieved net profits of about *FFr3.35bn ($670m)* last year, a rise of 4.5 per cent. **Page 18**

UK COMPANIES:
The Easter *bunny* has come early for UK equity investors. Companies reporting profits figures for 1994 have generally announced earnings in line with expectations, while dividends have been better than anticipated. **Paga 20**

STATISTICS

European shake-up at Crédit Lyonnais

By John Gapper in London

Crédit Lyonnais is to restructure some of its European retail banking operations outside France to mnve away from personal lending, and concentrate on gathering deposits, according to its chairman, Mr Jean Peyrelevade.

Crédit Lyonnais, which last week declared a FFr12.1bn ($2.44bn) loss for 1994 and disclosed details of a government-*backed* rescue plan, intends to restructure its 786-branch network in Europe over the next two to three years.

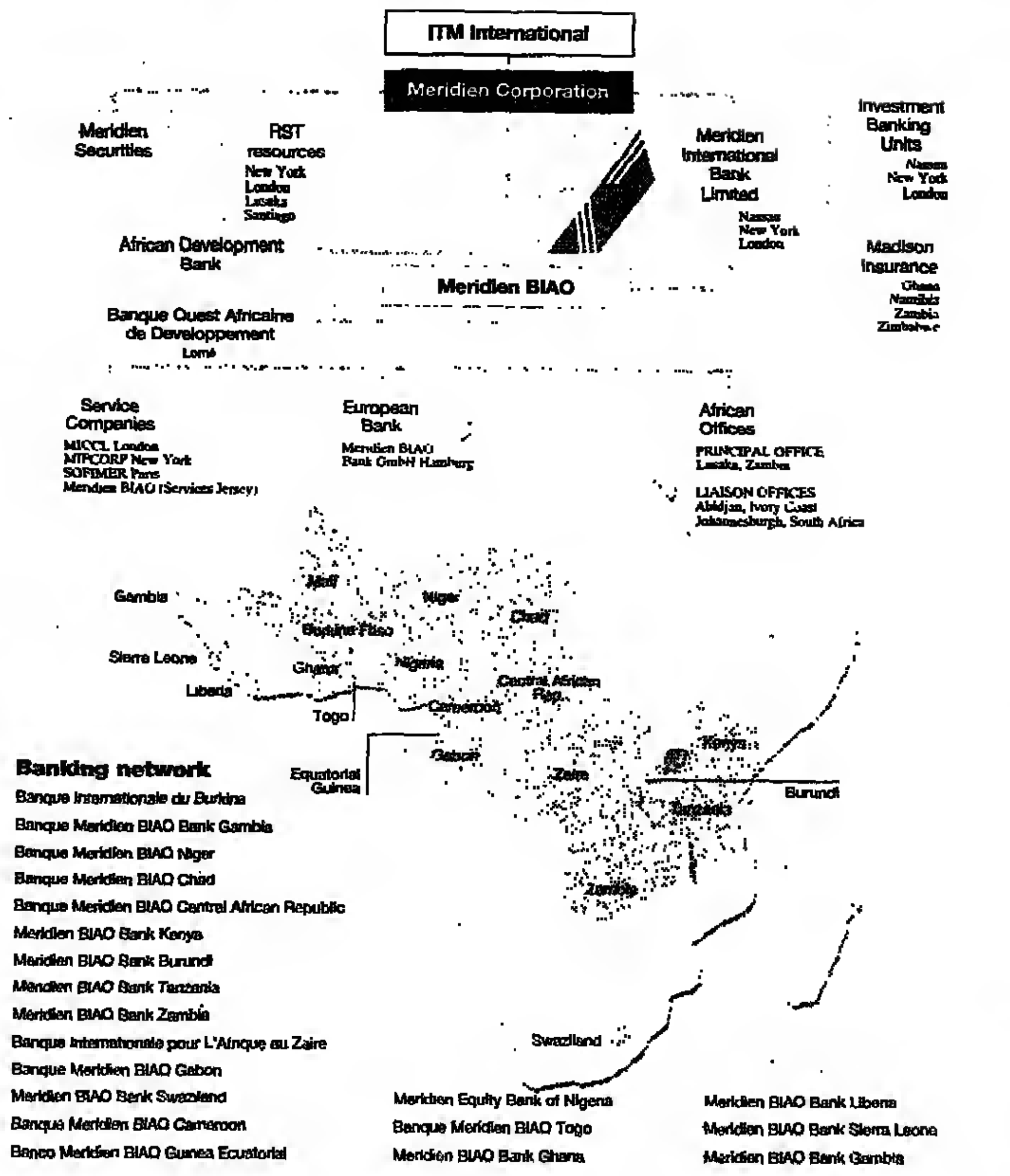
Crédit Lyonnais has already withdrawn from retail banking *in the UK*, and Mr Peyrelevade said it intended to cut its branch *network* in *Spain and Portugal*. "We have to reduce that, while *respecting Spanisb labour laws*," he said. It was likely to adopt a *similar approach* in *other European* countries to its Belgian retail bank. This *concentrated* nn gathering retail deposits rather than lending, acting similarly to a savings bank.

Its German retail network, however, was "the rigbt size" and would maintain a more comprebensive retail banking operation there. It had just restructured to give specialised lending services to smaller companies.

Mr Peyrelevade said Crédit Lyonnais had a fnur-year target nf improving productivity by 20 per cent and reducing its ratio of costs to income from about 80 per cent to the French banking industry norm of 70 per cent.

Internal audit practices had been tightened np, compared with the previous situation where there were certain parts of the bank they were barred from monitoring. The executive committee now read all andit reports. He said the French government had predicted that it could be privatised in about five years' time, but said this would almost inevitably invnlve the discarding of the splitting of profits under the rescue plan.

Mr Peyrelevade said the government would have to negotiate with minority shareholders, who bold about 20 per cent of its equity, in nrder to gain some dilution of their stake in return for giving up earnings. Under the rescue plan, the French government intermediary SPBI receives a large participating interest in any profits to 2014 in return for FFr135bn of problem loans being removed from the *bank*.



'Illegal deposit-taking' in UK

By Joel Kibazo in London

The Bank of England found "prima facie evidence of illegal deposit-taking in the UK" after an inquiry last year into the activities of Meridien International Bank Ltd (MIBL), a Bahamas bank with a representative office in London.

But Mr Andrew Sardanis, founder and chairman of Meridien, said: "We categorically deny that we were ever involved in any form of banking business in the UK. Our presence in the UK was to service our network in the form of letters of credit and liaison with our customers."

MIBL owns 74 per cent of Meridien BIAO, a troubled Luxembourg-registered banking group which operates in 20 African countries. Last week, Tanzania *followed Swaziland*, Kenya and Zambia in taking over the local operations of Meridien BIAO. The group is ultimately controlled by a family trust of Mr Sardanis, its Cyprus-born chairman, now a Zambian citizen.

The Bank of England told MIBL in December that a review of the account-opening files and correspondence files of a small number of customers uncovered the evidence of illegal deposit-taking. Bahamian banking secrecy legislation had made it impossible to provide access to all customer records, but the Bank told MIBL: "We would be surprised if this did not corroborate the evidence already available to date."

The Bank said it "recognised that the breaches had not been deliberate" but cited a "structural" problem and suggested operations of MIBL, Meridien International Credit Corporation, and any other related entities sbould be removed from the UK.

Meridien says it had been considering such a move for some time, and had indicated as mucb to the Bank. In January, the group announced it was moving its administrative offices from London to Lusaka. Mr Sardanis said: "The decision to move the administrative offices of Meridien BIAO had nothing to do with the Bank of England. It was our decision." The Bank of England, which had no supervisory responsibility for MIBL or other members of the group because they were not licensed to take deposits, would not comment on an individual case.

Mr Colin Goodwin has resigned as president of Meridien BIAO because of the move to Zambia.

High noou for Meridien, Page 19

Chase feels the heat to unlock hidden virtues

Richard Waters considers the US bank's options to satisfy a demanding new shareholder

The heat has been turned up under the directors of Chase Manhattan, the US's sixth biggest banking group and one of the pre-eminent names in international banking.

The source of their agitation can be traced to suburban New Jersey, wbere a 43-year-old *named Mr Michael Price runs* investment funds worth a seemingly modest $8bn or so. Mr Price has decided that the time bas come for *Mr Thomas Labrecque*, Cbase's chairman, to unlock some of the hidden value in the company for tbe benefit of sharebolders. A rough translation: if Mr Labrecque can't find a way to lift Chase's share price, be should auction off its best businesses or put tbe entire bank on tbe block.

Mr Price's firm, Heine Securities, whicb bas just become Chase's biggest shareholder, has long specialised in buying shares in companies valued at less tban tbeir intrinsic asset value. More recently, he has used his holdings to put pressure on companies to turn that hidden value into hard cash.

Mr Price's biggest success so *far came at Michigan National*, an underperforming regional bank in which Heine had a stake of more than 8 per cent. After two years *of shareholder agitation*, the bank agreed a sale to *National Australia Bank in early* February (tbe deal has yet to be *completed*,) *reportedly* doubling Heine's original $50m investment. *Mr Price began to build his* stake in Chase one week later.

His latest target was well chosen. Before Heine started buying, Cbase sbares traded at only about 85 per cent of book value. The average for other money centre banks was about 120 per cent, while big regional banks traded at 150 times book. Memories persist of the 1980s, wben Chase was hit by lending to developing countries (at a cost of about $3bn) and commercial property (cost: $2bn).

Chase, however, is not Michigan National. It earned $1.2bn after tax last year, equivalent to a return on equity of 15.8 per cent – certainly not a spectacular result, given tbe strong conditions for bank earnings generally, but still a solid pay-off for Mr Labrecque's strategy.

Over the past three years, besides clearing out most of its troubled loans, Chase has sold some businesses and closed others in an effort to focus its resources on activities where it has a chance to be among the market leaders. The group now operates on three broad fronts: *a regional bank based in the New* York area, a collection of financial services businesses covering the whole of the US (sucb as *credit cards and mortgages*) and an international wholesale bank.

But the *virtues* of its best businesses (credit cards on the retail side, InfoServe – a collection of cash management and securities services operations – in the wholesale bank) bave been shrouded in the lacklustre performance of the group as a whole. The value of the whole has failed to keep pace with the sum of the parts. Wall Street's break-up valuations generally come up with $55-$75 a share, compared with a market price (before Mr Price began buying) of $35.

"There has been a time lag in having the value of the franchises recognised in the price", says Mr Arjun Mathrani, Chase's chief financial officer. The bank this year began to publish tbe revenues of its separate units.

Mr Price's challenge may not be answered so easily. A 6 per cent stake may not be enough to exert direct influence, but his voice as the bank's biggest single shareholder will count for something. The most obvious responses would be to lift the dividend, buy back shares or start a new cost-cutting drive – or all three. *Mr Mathrani says Chase* remains at tbe low end of its *targeted range of paying out* 25-35 per cent of earnings in dividends.

Tbere *could* also be *limited* scope for more stock buy-backs (Cbase recently completed the repurchase of about 5 per cent of its shares.) But Mr Mathrani said Chase would continue to pusb for an AA credit rating, suggesting it would not risk depleting its capital base to boost earnings.

If measures like these fail to do the trick, Mr Labrecque will come under pressure to launch a more radical sbake-up sucb as selling one or more of his crown jewels. Or it could even lead Chase into the arms of a suitor.

This week: Company news

US COMPANIES
First quarter to show growth hitting a slowdown

What effect have higher interest rates had on the profits of US companies – and has a lower dollar offset some of the damage? The answers will become clearer from this week, when the first quarter corporate reporting season gets under way.

Most analysts expect a marked slowing of profits growth as the year progresses, after a strong end to 1994. The effects will start to show through this quarter in companies which are dependent on domestic consumer markets, says Mr Jeffrey Applegate at CS First Boston: companies such as motor manufacturers and *retailers* will suffer from weakening consumer demand in the US without benefiting from the stronger growth in foreign markets or the weak *dollar*.

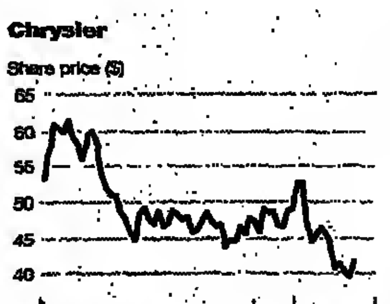
Chrysler, the first motor manufacturer to report, has already warned that earnings for the first quarter will be below the level of a year ago, when the company made $2.30 a share. Mr Robert Eaton, chairman, added that Chrysler was likely to continue offering hefty incentives to attract buyers in the coming months, something that would hurt earnings in the second quarter as well.

The stock market has already knocked 30 per cent off Chrysler's shares this year.

JP Morgan is on Thursday likely to signal a weak first quarter for banks that depend heavily on the financial markets. While the volatile currency markets have been generally good for bank earnings, the turmoil in the emerging markets *following Mexico's* devaluation have hit profits.

Morgan is generally expected *to have* done better than in the final three months of last year, when earnings per share were a disappointing 96 cents. But at around $1.10 a share, earnings in the latest period will still be considerably below the $1.69 of a year before.

Chrysler



Source: FT Graphite

FORTE
Reorganisation may trim expectations

Forte, the UK's leading hotels group, announces its full-year results on Wednesday. Pre-tax profits are expected to be between £120m and £130m ($208m) *after last year's* £121m, but the figure will be influenced by a number of *factors*, including a possible restructuring charge of about £7m *following* the acquisition of Meridien, the French hotel chain last November. *FRS5, the accounting* standard dealing with off-balance sheet financing, could result *in a £10m charge*.

Forte has been going through *management restructuring* and company reorganisation following its expansion into *Europe*. The *main issues* it faces are the performance of its provincial hotels and whether it will have to depreciate its freehold buildings following a review being undertaken by the Accounting Standards Board. The dividend of 7.5p is expected to remain unchanged.

Meanwhile the Savoy Hotel group, which includes London's Connaught, the Berkeley, Claridge's as well as the Savoy itself and the Lancaster in Paris, reports its full-year results tomorrow. Forte owns 68 per cent of Savoy's shares and 42 per cent of its votes. *Profits* at the Savoy group are expected to rise from £725,000 to about £4m on the back of increased demand for London hotels. After halving the *dividend last year*, it is *expected* to remain unchanged.

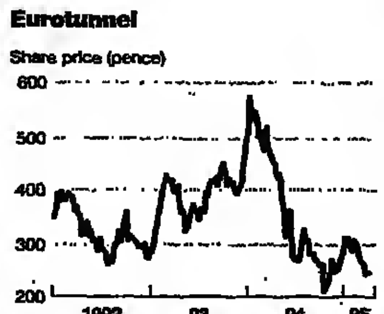
OTHER COMPANIES
Still looking for light at end of Eurotunnel

True to form, Eurotunnel has kept its investors and its bankers on the edge of their seats, renegotiating the terms under which it will draw down the £693m ($1.1bn) loan agreed last May and staging a shake-up of its marketing department. When it announces its 1994 results today, analysts will be looking for some good news on passenger numbers and revenues in the first quarter of 1995. Delays in launching services last year will have a knock-on effect and it is only expected to achieve *1995* revenues of £400m, £125m *less than* forecast. Pressure for a refinancing is *expected to grow, but there appears* little point until Eurotunnel has had the *chance* to show its paces during the spring and summer season.

■ **Schneider:** The French electrical engineering group is expected to announce a sharp increase in profits when it reveals results for 1994 today. Analysts are forecasting net profits of about FFr700m ($141.7m), compared with FFr405m last time. Schneider is undergoing a fundamental restructuring of its loss-making construction and property arm, but is benefiting from productivity improvements and stronger markets.

■ *Tesco: The UK's second-largest* food retailer is expected tomorrow to *announce a bounce-back in profits from* £436m to around £595m ($952m) for the year to *February, before rationalisation* costs of about £35m associated with last year's purchase of *Wm Low*, the Scottish supermarket chain. Underlying *operating profits should* sbow a strong increase, from £543.8m to about £650m.

Eurotunnel



Source: FT Graphite

■ **Daimler-Benz:** Mr Edzard Reuter will preside over his last balance sheet press conference on Wednesday before he retires in May. He can be relied on to trumpet the group's decisive return to the black, reported last week – and a DM3 increase to DM11 in the 1994 dividend. These are the first fruits of the restructuring which may come to be remembered as Mr Reuter's most important contribution.

■ **RMC:** The world's biggest concrete producer goes from strength to strength. Its philosophy of concentrating on what it does best in as many markets as possible gives it an *enviable geographical spread. 1994* pre-tax profits are expected to be £275m *($440m) compared with £177.8m.*

Companies in this issue

Générale des Eaux ahead despite property arm loss

By John Ridding in Paris

Générale des Eaux, the French water, construction and communications group, achieved net profits of about FFr3.35bn ($697m) last year, a rise of 4.5 per cent on 1993, in spite of record losses at its property subsidiary.

The result, which is due to be confirmed next month, includes substantial provisions against losses of FFr2.23bn at Compagnie Immobilière Phenix, the group's property arm. In 1993, losses at CIP amounted to FFr158m.

These losses and provisions were offset by capital gains arising from several operations, including the sale of stakes in Cofira, the company's mobile telephone operation, to industry partners such as Southwestern Bell of the US and Vodafone.

Sales at the group rose by 5.8 per cent to FFr156.2bn, with about 30 per cent of the total coming from markets outside France. Générale des Eaux said the rise in results would enable it to increase the dividend from FFr11 to FFr11.25.

The company also outlined details of the restructuring of CIP, one of several casualties of the recession in the French property market. Under the restructuring, a share exchange will offer one Générale des Eaux share for every eight CIP shares and for every three CIP convertible bonds. The maximum dilution for the group shares is 1.38 per cent, according to the statement.

The large provisions for CIP and the restructuring package reflect the strategy being pursued by Mr Jean-Marie Messier, appointed last year as managing director and heir apparent to Mr Guy Dejouany, the group chairman. Mr Messier has adopted an aggressive approach at CIP, seeking a final resolution of its losses and overvalued assets.

Derivatives trading hits Unicem

By Andrew Hill in Milan

Extraordinary lnsses nn derivatives trading helped drive Unicem, the Italian cement company, into a group loss of L98bn ($58m) last year.

Unicem, which is controlled by the Agnelli family's Ifi holding company, had to set aside L78bn to cover losses on unauthorised trading of derivatives and other financial instruments, since curtailed.

The company, which made a net profit of L25bn in 1993, managed to increase operating profits to L32bn, more than double the L15bn reported for 1993, even though cement consumption in Italy dropped 8 per cent in 1994.

Extraordinary losses wiped out the benefits of this performance. Apart from the L78bn trading loss, Unicem also set aside L12bn to cover European Commission fines levied for alleged membership of a European cement cartel. The company is appealing against the fines. An 11 per cent cut in its workforce cost a further L9bn in extraordinary charges.

Some 40 per cent of Unicem belongs to Ifi, and just over 10 per cent to Ifil, the holding company for the Agnellis' industrial interests apart from Fiat. However, under a complex operation announced last May, Ifil will eventually gain control of the whole majority stake in Unicem.

Hyogo bank to report deficit

By Gerard Baker in Tokyo

Hyogo Bank, one of Japan's larger regional banks, centred on the Kobe area, has become the latest of the country's financial institutions to prepare its shareholders for losses when it announces its results next month.

The bank said its recurring loss, before tax and extraordinary items, for the year to March 31, would be Y10.7bn ($127m) and it would report an after-tax loss of Y12.2bn. Last autumn it forecast after-tax profits of Y1.1bn.

Last year, Hyogo posted a recurring profit of Y2.5bn and a post-tax profit of Y1bn. At the end of September last year it had total assets of Y3,700bn.

The main reason for the loss, it said, was the sharp decline in share prices in the past six months, which reduced the value of the bank's large holdings of equities.

Under Japanese banking rules, if the market price of shares held by a company falls below its book value at the end of an accounting period, it is required to declare the loss. Many banks are expected to have experienced such losses in the past financial year.

The bank did not attempt to offset the losses by selling other equities on which it carries substantial large gains.

Banks have done this in the past to balance losses elsewhere in their accounts, but realising these equity gains has the effect of weakening a bank's capital base, since unrealised gains are counted as part of a bank's capital.

Hyogo said the Kobe earthquake in January had inflicted serious damage on its head office and branches.

Repsol set to kick-start the bolsa

Madrid's offer could usher in a privatisation drive, says Tom Burns

Repsol's long-awaited placement, which will be completed today, has brought risk-averse domestic investors back to Madrid's Bolsa and prepared the stage for a privatisation programme in Spain.

Analysts believe that the Pta200bn ($1.4bn) offer of 19 per cent of state-owned equity in the oil, chemical and gas conglomerate could also refuel foreign interests in the Spanish market. The offer, the largest in Europe so far this year, has been strongly oversubscribed in both its domestic and international tranches.

A key feature of the placement, globally co-ordinated by Goldman Sachs of the US and the domestic retail bank Banco Bilbao Vizcaya, has been the rush for shares by small Spanish investors. When the retail offer of 32m shares closed on Friday, demand stood at more than 70m shares.

The excitement generated by the Repsol paper reflects the prospects of good earnings by the energy group, as well as the clever, innovative incentives that have underpinned the placement. But it could also indicate that domestic investors are beginning to shrug off a wariness over the equity market that has brought the Bolsa's index to some 25 per cent below its historic peak of early 1993.

Repsol is viewed as the best possible stock to kick-start the market. Its chemical division is poised to make good profits on the back of the sector's cyclical recovery and its gas business – built around its 43 per cent stake in Gas Natural, the dominant domestic distributor – is set for strong growth following the company's acquisition of Enagas, the dominant domestic supplier.

"The placement amounts to a blast of badly-needed oxygen in the Bolsa," says Mr Juan Bastos, chief executive of Madrid brokers Ibersecurities.

"A bout of domestic optimism could bring the foreigners back," says Mr Enrique Marazuela, an energy sector analyst at Madrid securities firm Ahorro Corporacion Financiera. "Foreign investors used to account for 30 per cent of the Bolsa's trading and they represent less than half of that now."

Repsol, which first tapped the international markets in 1989, is also seen as the most attractive candidate among government-controlled companies to usher in a privatisation drive.

"The group was created to compete in a liberalised energy sector and Repsol's management was chosen from a very competitive prospective," says Mr Wolfgang Draak, an analyst in Frankfurt for Moody's Investors Service. "Repsol has come a long way and it is very market-orientated."

The current offer will reduce the state-owned equity in Repsol to just over 21 per cent and this lowered government presence is welcomed by analysts on the grounds that it will further enhance the strength and independence of the group's management. Mr Oscar Fanjul, Repsol chairman, has himself consistently equated privatisation with greater efficiency.

The performance of Repsol shares in the weeks ahead will dictate the timing and the scope of future disposals by government-controlled companies. In recent statements, Mr Pedro Solbes, the economy and finance minister, has indicated that the government is looking to raise as much as Pta700bn over the next 18 months through privatisations – a sum that will be used to lower the public deficit.

Such plans, which could include an offering by Telefonica, the telecommunications group, before the summer, depend to a large extent on the aftermath of the current disposal. "The government's placement strategy hinges on whether Repsol delivers solid rewards to its shareholders," says Mr Bastos.

Rewards have been scant for investors in the government's two previous placements. Trading in Endesa, the state utility, and in Argentaria, the banking group, is well down on their issue prices in May last year and October 1993 respectively.

It is no surprise therefore that the Repsol offer has been carefully stage-managed. In addition to a 5 per cent discount on the issue price, which will be announced after the New Ynrk Stock Exchange closes today, special attention has been given to reducing the risk for retail investors.

The cornerstone of the sales pitch has been an undertaking by the energy group to reimburse small domestic investors 12 months after the issue for any fall of up to 10 per cent in Repsol's market price. "If there had not been that guarantee, the retail tranche would probably have been a disaster," says Mr Marazuela.

This important lesson has no doubt been taken on board by the government as it lines up a number of companies, as well as institutions such as the airport and port authorities, for privatisation. Together with Telefonica, a shortlist of forthcoming disposals is understood to include Tabacalera, the tobacco manufacturer and distributor, Ence, a paper pulp producer, and Argentaria.

Strong interest by domestic retailers is held by the government to be a prerequisite to a successful privatisation programme, and these investors are now likely to demand reimbursement guarantees similar to that undertaken by Repsol in any future disposals.

NEWS DIGEST

Mövenpick in further dividend rise

Mörveopick, the Swiss restaurants and hotels group, reported 1994 net income of SFr13.7m ($12.1m), up 39 per cent, and the directors have proposed a further restoration in dividends from 8 per cent to 10 per cent, agencies report.

The group, still recovering after losses and a sale of the controlling shareholding to Munich businessman Mr August von Finck in 1991, said that revenues slipped 7 per cent last year to SFr1.16bn.

However, operating earnings jumped by 48 per cent to SFr26.7m in spite of recession and lacklustre consumer sentiment in its main markets, Switzerland and Germany.

The group said the proposed dividend rise was based on "the continuing increase in operating earnings since 1992".

Marginal increase for Pargesa

Pargesa, the Swiss investment group controlled by the Belgian financier Albert Frère and Canada's Paul Desmarais, has reported a 1.7 per cent rise in 1994 net income to SFr162m, writes Ian Rodger in Zurich.

However, because of the increase in capital last July, earnings per share eased to SFr104 from SFr106. The directors are proposing a rise in dividends from SFr68 to SFr69 per bearer share.

Toronto exchange suspends Bramalea

The Toronto Stock Exchange has suspended trading in the shares of Bramalea, the Canadian property development group being broken up by its principal creditors, because of its financial position, writes Robert Gibbens in Montreal.

Bramalea had been trying to refinance C$3.5bn of debt but ran out of cash two weeks ago.

Advance by Natuzzi

Industrie Natuzzi, the Italian furniture manufacturer, increased net profit in 1994 to L76.6bn ($45m), against L63.4bn in 1993, writes Andrew Hill in Milan.

Turnover rose to L691bn, from L466bn, and the group has proposed a dividend of L143, compared with L142.8 for 1993. Natuzzi is quoted on the New York Stock Exchange and just under half its turnover is generated in the US.

Weak dollar cuts Moller surplus

A. Moller, the shipping and oil and gas group, saw 1994 profits cut by the weak dollar and low freight rates for oil tankers, container shipping and oil drilling rigs, writes Hilary Barnes in Copenhagen.

Pre-tax profits fell to DKr2.56bn ($471m) from DKr2.91bn in 1993. Turnover rose to DKr29.89bn from DKr27.83bn.

The dividend paid by the group's twin parent companies, D/S Svendborg and D/S 1912, will remain at DKr225m.

Greek shipping group in $400m sale

Vardinoyannis, the Greek shipping group, has agreed to sell a 50 per cent stake in an oil refinery and a chain of petrol stations to Aramco, the Saudi Arabian state oil company, for about $400m, writes Kerin Hope in Athens.

It said the sales opened the way for entry with Aramco into markets in the Balkans and the former Soviet Union.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Orkla (Norway)	Procordia Foods/ Abba Seafood (Sweden)	Food	£375m	Volvo continues asset sales
Cookson (UK)	MPM Enterprises (US)	Electronic materials	£93m	Large deferred element
Pegasus Gold (US)	Zapopan (Australia)	Mining	£62m	Offer for outstanding 42%
Charles Schwab (US)	Sharelink (UK)	Stockbroking	£39.7m	Agreed offer
Laporte (UK)	Mapico (US)	Pigments	£28m	Specialist purchase
Siebe (UK)	LeRoi (US)	Engineering	£20.6m	Major North America ...
Siebe (UK)	Fabex (US)	Engineering	£17.2m	... expansion package
Dalgety (UK)	PAC (Italy)	Food	£11.8m	Cash buy
RR Donnelley (US)	International Communication & Data (UK)	Marketing services	£9.4m	Agreed bid
ISS (Denmark)	Vaardbo (Sweden)	Healthcare	n/a	Private care move

High noon for Meridien

Joel Kibazo examines an African banking group's growing troubles

Mr Andrew Sardanis, chairman of Meridien BIAO, the troubled banking group operating in 20 African countries, is not a man easily unsettled by unfolding events. Speaking in London last week, the Cypriot-born Zambian citizen said: "I do not believe it is the end of the road for us. We need to restructure, but we will come out all right."

Mr Sardanis will have to draw heavily on his 45 years of experience in the rough and tumble world of African business if his group is to emerge from its current crisis.

Tanzania's central bank last week joined a growing list of authorities to have taken over the group's local operations. Tha Bank of Tanzania cited large foreign exchange exposure positions – estimated at abont $30m – for its move, together with "a poor lending policy which lacked proper scrutiny, and rapid expansion".

In February, Swaziland took over the running of the local Meridien BIAO, pending a sale. First National Bank of South Africa has confirmed that it is in talks abont acquiring the Meridien operations in Swaziland. Kenya's central bank took over Meridien BIAO operations in Nairobi in March, also citing foreign exchange exposure positions.

But tha biggest blow cama two weeks ago when authorities in Zambia, where the group is beadquartered, took over Meridien BIAO Bank Zambia, split it from the rest of the Meridien BIAO group and appointed Mr John Cruickshank, a former senior partner at KPMG Peat Marwick in Zambia, as interim chairman.

Only two weeks before, the Bank of Zambia had poured more than 40bn kwacha ($50m) into the bank to bail it out of a serious liquidity crisis after rumours of its closure had started a run on the bank.

The group is the result of a 1991 merger between the Meridien Group's banks started by Mr Sardanis in 1983 and a network of 11 banks he bought from the French liquidator of Banque Internationale pour L'Afrique Occidental (BIAO).

Registered in Luxembourg, although it does not operate there, Meridien BIAO is 74 per cent owned by Meridien International Bank Ltd (MIBL), which has a banking licence in the Bahamas. The African Development Bank holds a 10 per cent stake and the Banque Ouest Africaine de Developpement (BOAD) has a 16 per cent holding. It was capitalised at about $100m.

> 'I believe our problem has always been a shortage of capital,' says chairman Andrew Sardanis, but attempts to find suitable partners have failed so far

The group reported a net profit of $3.26m in 1993, the last year for which audited figures are available, but after currency translations its reserves declined by $15.2m in that year. MIBL is owned by Meridien Corporation, whicb is in turn owned by ITM International, a Luxembourg-registered private company controlled by the Sardanis family trust.

A lack of liquidity has dogged the group from its early days. Mr Sardanis said last week: "I believe our problem has always been a shortage of capital."

Tbe liquidity problem appears to have been compounded by the 1991 merger and well informed sources bave indicated funds were taken from the more profitable banks in English-speaking Africa to shore up less profitable operations in Francophone countries.

Meridien itself would only say: "We found the BIAO network in a worse state than we had anticipated and the situation deteriorated dne to tbe overvalned CFA franc. The [1994] CFA franc devaluation only made things worse." It also cited high integration costs of merging the two groups as another source of its woes in that region.

Attention has also been called to financial transactions between Meridien and ITM, the private company controlled by Mr Sardanis which is involved in mining, trading and construction. Mr Sardanis said: "ITM has borrowed money from the bank but it has been on normal commercial terms. I don't think that borrowing is excessive and I refute allegations that money borrowed by ITM has not been paid back on time or that ITM is not meeting its obligations. It is a lot of other borrowera that have delayed payments."

But if liquidity is at the heart of the group's problems, then attempts to find suitable partners have so far met with failure. One factor is the group's ownership structure, which effectively means there is no lender of last resort and thus no single effectiva regulator. The Bank of England has been keeping a close watch on Meridien's London operations and it is perhaps one reason wby several merchant banks in the City of London have shied away when approached by Meridien to belp it find suitable partners for a cash injection. Talks in February with Internationale Nederlanden Group about a cash injection came to nothing.

Yet Meridien has paid little heed to critics of its complicated ownership structure. Mr Sardanis said: "We knew regulation was important but we coocluded it was an unattainable goal. We are a Third World operation and regulators don't understand us."

He blames most of the gronp's troubles on a wider conspiracy. "I think there is a conspiracy hy the British establishment, and Britisb banks that are our competitors. The fact is they do not consider any institution out of Africa is capable, professional and long lasting and due to their power it becomes a self-fulfilling prophecy. I think that is what is happening here."

A board meeting to look at the group's future is to be beld at the end of this month, but Mr Sardanis remains confident about the future. Pledging to repay the Zambian central bank, be said: "I do see a future for this group and I will work to ensure we get over our problems."

Watmoughs chairman receives 46% rise

By Peter Pearse

Mr Patrick Walker, chairman of Watmoughs, the Bradford-based printer, received a 46 per cent increase in his pay package in 1994, np from £286,000 to £419,000. Pre-tax profits rose 30 per cent to £20.1m.

Stripping out pension contributions of £49,000 (£43,000), bis pay grew 52 per cent, boosted by a rise in his management remuneration and benefits to £208,000 (£169,000) and a performance-related bonus more than doubled to £162,000 (£74,000).

Mr Walker's bonus is based on 2 per cent of tbe gronp's annual profits, adjnsted for additional share capital issues.

The total remuneration for all the directors increased 20 per cent to £1.28m (£1.06m).

● Mr Peter Redfern, cbief executive of Partco, tbe distributor of antomotive parts and equipment which came to the market in March 1994, saw his total remuneration rise by 43 per cent to £164,000 (£115,000). Within that, bis salary rose to £121,000 (£100,000) and be received the maximum performance-related bonus of £25,000 (nil).

Gus Carter is betting on raising £3.5m in flotation

By Peter Pearse

Gus Carter, which runs 72 betting offices in the north-east of England, is coming to market on May 2 via a placing to raise £3.5m before expenses. The transaction will value the company at about £12m.

Based in Sunderland, Carter has more betting shops in the north-east than any other group except Ladbroke. It is one of the 10 largest betting office gronps in the UK by turnover, which rose to £43.6m (£40.8m) in 1994. Pre-tax profits for the 12 months to December 31 nearly doubled to £1.09m (£574,000).

The company is raising the money to fund the introduction of a new text system, electronic point-of-sale equipment and computerised settling equipment; to belp develop some of its existing betting sbops; and to finance tbe acquisition of individual, or small chains of, betting offices.

Carter currently has 72 outlets and aims to have more than 150 betting offices.

The company was founded in 1958 and is now run by Mr John Trewhitt, managing director, and his brother Nick, development director, who both assumed control from their father in 1985.

With the extension of betting office hours to include evening and Sunday opening, Carter expects to increase turnover. This will be further helped by otber liberalising changes which came into effect on April 6.

Equities find favour over bonds

By Peter John

Fund managers are moving their attention from bonds to equities, according to the latest Smith New Court/Gallup survey of institutional investors.

While 28 per cent of managers, tbe highest proportion since December 1994, were planning to increase equity boldings, only 2 per cent were buyers of gilts.

The figures represent a significant contrast to the mood a month earlier, and come at a time wben the FT-SE 100 Index bas risen to its highest level since last August. At 3,210.9 on Friday, the index had recorded a gain of 230 points over the month and showed signs of breaking througb a narrow trading range.

At the beginning of March, only 21 per cent of managers were buyers of equities and 19 per cent were shifting money into the gilt market. Then, only a third believed in tbe near-term potential for UK equities, wbereas now just over half (51 per cent) believe that the prospects over tbe next three months are positive.

The survey, whicb covers 82 investment institutions responsible for funds totalling £1,091bn, also shows a change of asset allocation within the equity market. Over the past six months, investors have moved away from electricity stocks; 12.2 per cent of the sample chose it as the least favoured sector. Property stocks are also under a cloud.

One of the main beneficiaries has been the retailing sector, which bas seen a shift over the past six months from a 4.7 per cent negative to an 8.1 per cent positive. Engineering and bank stocks are also popular, while the £9bn-plus takeover of Wellcome hy Glaxo has enlivened pharmaceuticals.

Rugby Estates ahead at £2.4m

In its first set of full-year results since it floated out of Hillsdown Holdings last April, Rugby Estates property group lifted pre-tax profits from £2.01m to £2.44m for 1994.

However, stripping ont a £700,000 exceptional credit from the total for 1993, the underlying pre-tax increase was 88 per cent. Net assets per share, inclnding unrealised post-tax profit in trading stock, emerged at 130p at December 31, against 127p at the flotation.

During the year the group made acquisitions of £16m and sales of £7.5m, with £12m and £7m respectively of those totals after coming to market.

As anticipated, a final dividend of 1.38p makes a total for the year of 2.07p.

Fitzwilton sells freezer business

Fitzwilton, the Irish industrial holding group, is selling its 75 per cent-owned Novum subsidiary for I£32.9m. The Dublin-based freezer business is being acquired by a company formed by NatWest Ventures and the existing management team.

The proceeds will be used to pay off borrowings and develop otber businesses. Fitzwilton said it would now concentrate on the Irish food retailing sector through its 97 per cent stake in the Wellworth retail chain, Rennicks, its sign manufacturer, and its investment in Waterford Wedgwood.

The group is currently resisting a possible takeover attempt attention by Dunnes Stores, the Irish retail group, which has recently acquired a 9.1 per cent stake.

COMPANY NEWS: UK RESULTS ROUND-UP

■ RAW MATERIALS – By Tim Burt

Higher costs force a mood of caution

Many manufacturers have branded 1994 the year when raw material price increases rose with a vengeance, reaching some of the highest levels seen for a decade.

Companies exposed to commodities snch as pulp and paper, metals, rubbers and chemicals all endured sharp increases and some encountered fierce customer resistance when they tried to pass on the extra costs.

Among the largest rises, prices for bulk chemicals such as ethylene, propylene and styrene doubled during the year.

Spot prices for methanol rose 400 per cent, while orthoxylene climbed almost 200 per cent. Copper rose from $1,767 per tonne to $3,039; aluminium jumped 76 per cent from $1,108 to $1,951; and some grades of steel rose by up to 20 per cent.

Cotton and wool prices rose similarly; tbe cost of wood pulp increased 80 per cent, and publishers saw newsprint prices rise from $410 to $600 per tonne.

At the interim stage, many companies warned that margins were under pressure and cost-cutting was inevitable if they were to absorb bigher costs.

For some, the caution was fully justified.

BICC, the world's second largest cable manufacturer and one of Britain's leading construction companies, cut its full-year dividend for the first time in 20 years after admitting it could not justify an increase while it struggled to recover commodity prices from unwilling customers.

Sir Robin Biggam, chairman, blamed higher raw material prices as the main factor behind a £97m fall in casb flow and a £60m rise in working capital requirements.

Smaller companies also felt the heat. Inveresk, the Scottisb speciality paper manufacturer, saw profits fall more than 12 per cent after "unexpected and dramatic increases" in pulp prices.

For many others, bowever, initial fears over rising prices proved overblown. Prices for bulk chemicals and paper have yet to return to the levels of the 1980s and some companies are detecting signs that tha production sbortages and rampant demand which fuelled tbe increases have abated.

British Vita, the foam and fibre group which warned last year that raw material prices were threatening its profitability, found that it had been able "substantially" to recover the increases.

BTR, the industrial conglomerate, also surprised the market in March by announcing better-than-expected figures just three months after warning that costlier raw materials had forced it to pressurise suppliers toto price cuts.

"The impact of raw material increases was vastly overdoue," said one City analyst, while another accused BTR – among others – of misreading tbeir ability to pass on prices.

Several analysts also pointed ont that most manufacturing sectors "had never had it so good", with prices bumping along at historic lows for most of the past five years.

Where they were faced with steep increases, many large companies used their buying power to extract favourable deals from suppliers and relied on cheaper alternative materials where possible.

Charter, the industrial engineering group, for example, began sourcing steel from lower cost overseas markets and reformulated some products to eliminate the costliest commodities.

"We've used our purchasing clout to do that, while increasing productivity and taking out costs where we can," the company said.

In the textile sector, similar re-engineering and cost cuts helped Coats Viyella, the UK's largest textile and clothing company, to absorb price increases and pass some on.

Welcoming an 18 per cent increase in underlying profits, Mr Neville Bain, chief executive, said: "The signs are there that we are going to be able to see good growth this year."

Contemplating 1994, the message from such executives is that raw material prices can be recovered when customers regard the goods they receive as high added-value products and not just repackaged commodities.

A season of mellow fruitfulness

Corporate confidence is strengthening, **Philip Coggan** says, but the above-trend growth of earnings cannot continue

The Easter bunny has come early for UK equity investors, in the form of a results season which has assuaged their worst fears.

Around Christmas, some analysts were worried that profits might disappoint, as margins came under pressure from higher raw material costs which companies would be unable to pass on.

But companies reporting profits figures for 1994 have generally announced earnings in line with forecasts, while dividends have been better than expected. The margin worries seem to have disappeared, as companies have managed to cut other costs or pass on increases.

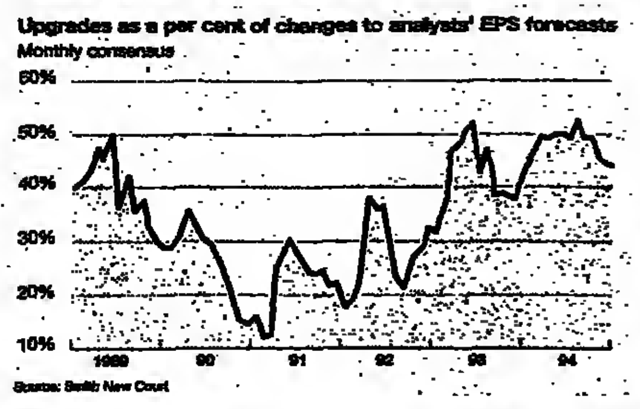
Earnings growth for 1994 is likely to be about 15 to 16 per cent, when all the figures are in, while dividend growth should be about 12 per cent. Dividend growth has been stronger than expected, a sign of corporate confidence and of the greater financial strength of UK industry, which has repaid much of the debt it incurred in the 1980s.

Looking ahead to 1995 figures, analysts think that corporate profits can continue to grow at a double-digit rate. Mr Mark Tinker of James Capel is expecting 19 per cent growth among the non-financial stocks while Mr Richard Kersley of Barclays de Zoete Wedd is opting for 14 per cent. The consensus is about 15 per cent.

Changes for the better

Upgrades as a per cent of changes to analysts' EPS forecasts

Monthly consensus



Source: Smith New Court

Economic growth, as measured by nominal gross domestic product, is likely to be 6 to 7 per cent this year. But Mr Tinker says that corporate profits can continue to grow faster than GDP, as productivity gains allow capital to gain at the expense of labour.

Furthermore, the profits growth of the quoted corporate sector, which represents larger companies, is likely to be stronger than that of unquoted small businesses.

Mr Tinker says that about 50 per cent of the profits of the quoted corporate sector come from overseas. That portion will be boosted both by the decline in the pound (since the value of foreign currency earnings is higher in sterling terms) and by the worldwide economic recovery.

In addition, there are some sectors, particularly retailing and housebuilders, where larger companies may be continuing to gain market share at the expense of smaller outfits.

The above-trend growth of corporate earnings cannot continue for ever. Mr Kersley argues that by 1996, UK corporate profits growth may be rising in line with nominal GDP, at about 7 per cent. He thinks that higher pay increases will mean that employees will be getting some of the benefits of recovery previously reserved for employers.

Unit labour costs have started to accelerate, with the annualised rate of growth in the three months to January reaching 8 per cent, its highest level since 1991. The outlook for corporate profits may also be threatened if Eddie George, governor of the Bank of England, persuades the government to increase interest rates substantially to head off inflationary pressures.

In terms of the stock market, much depends on when the peak in corporate earnings is likely to come. If 1996 is the peak year, the market will soon start to reduce the multiple it is prepared to pay for earnings as it looks ahead to the next recession.

But if the recovery can be sustained for the rest of the decade, along the lines of the 1980s boom, the stock market should motor ahead.

Mr Amit Thakar, research accountant at ABN Amro Hoare Govett, believes that earnings are a few years away from their peak. He also thinks that the investors are underestimating the effect of low inflation, which will allow companies to pay out more of their earnings in dividends as they need less of a cushion against inflationary shocks.

At the moment, the market is in compromise mode. The consensus forecast for the end-year value of the FT-SE 100 index is 3,500, just under 10 per cent higher than its current level. If the consensus expectation for earnings growth is 15 per cent, that suggests the market is allowing for a fall in the p/a multiple.

The official historic price-earnings ratio on the FT non-financial index has already come down from the 22-plus level it reached at the start of 1994 and is now over 17, although some analysts' calculations put it at about 16. If earnings do grow by 15 per cent this year, that would bring it down to a more comfortable, in historic terms, 13.5.

■ CAPITAL SPENDING – By David Wighton

A return to faith in investment culture

Those optimistic about the UK economy will have found plenty to support their view in the company results season. In particular, it has brought signs of the upturn in capital investment that has been so noticeable by its absence.

Virtually all the leading industrial companies reporting 1994 figures plan increases in capital investment this year. For some it will be a big jump.

Glynwed, the Birmingham-based group which spans medium technology engineering markets, said it would increase capital investment by 50 per cent this year.

Such steep growth continues a trend which is now showing in government statistics. Last month the official figures for 1994 were revised upwards to show investment in the engineering sector growing by almost a fifth. The figures also sbowed an upward revision in the overall level of investment.

The Central Statistical Office said one reason for the revision was stronger than expected investment in the paper, pulp and plastics sectors at the end of the year. This is reflected at Bowater, the largest company in the paper and packaging sector, where axpenditure jumped to £170m (£116m) and is forecast to reach £200m this year. An even steeper increase is planned at Low & Bonar, the Scotland-basad packaging group, where investment is set to jump by up to 40 per cent to £30m. Low & Bonar said such a rate of investment was necessary to maintain profit margins in the face of sharply increasing raw materials prices.

Several manufacturing companies have cited the lack of inflation in their selling prices as one stimulus to increased capital investment. They argue that in a low-growth world they will have to work harder to keep profits rising.

The most dramatic example was Redland, the building materials group, which cut its dividend by a third partly blaming poor growth prospects in the UK and the need to step up investment. Mr Robert Napier, chief executive, said the group had decided to increase expenditure on replacing and upgrading capital to 120 per cent of depreciation, even before taking growth into account. "Companies will no longer be able to rely on market expansion to generate their profits growth," ha said.

Redland had to cut its dividend so it could match the investment of its main rivals in Europe. This provided some ammunition to those who argue that UK industry's relatively low level of capital investment is related to institutions' demand for high dividends. But Redland's dividends

'Companies will no longer be able to rely on market expansion to generate their profits growth'

had looked exceptionally high relative to its earnings prospects and other companies have accompanied the step-up in investment with higher payments to shareholders.

At the start of the reporting season the most optimistic City forecastere were looking for dividend growth of 10 per cent for 1994 but it looks as if even this will be exceeded.

Yet while manufacturing investment is outpacing dividend growth, pessimists point out that much of the industrial investment is designed to raduce costs rathar than increase capacity.

Redland said the stress was on productivity rather than growth, as did Williams Holdings, which plans to increase investment by more than a quarter, to £50m this year.

Yet BTR, one of Britain's biggest manufacturing companies, said it was shifting its balance from cost reduction to capacity growth. Its capital expenditure rose to £537m (£511m) last year, 1.3 times depreciation, and is set for healthy growth this year. Another giant conglomerate, Hanson, is also planning higher investment after a couple of flat years. UK spending will be well ahead of depreciation, but the bulk will be going into chemical companies in the US.

Pessimists also argue that the sharp rise in investment being reported by UK quoted companies does not mean an equally strong rise in investment in the UK. For example, BP's huge investment programme is being stepped up from $4bn to $4.5bn, but will be directed more to fast growing markets in Asia and Latin America.

Mr George Hodgson, equity strategist at S.G. Warburg, points out that while manufacturing investment may be picking up strongly, other investment cycles are falling. Investment by drug companies is tailing off after the completion of Glaxo's £650m research centre at Stevenage, and the supermarket chains have scaled back their store opening programmes.

Although British Telecom is spending heavily on new digital exchanges, billing computers and its cellular network, investment by the utilities as a whole is also rather flat.

Yet it is spending on plant and machinery which most critics of the UK aconomy worry about, and here the trend is strongly positive.

But Mr Edmond Warner, strategist at Kleinwort Benson, argues that investment is still below that which would be expected on the basis of past economic cycles. "Although it is moving in the right direction it still looks lacklustre. We are way short of anything lika an investment boom." He suggests that companies find it difficult to believe that the UK's export-led, low inflationary growth can continue for ever. "What is really needed is an improvement in consumer confidence in the UK." And of that there is still little sign.

Sunshine and showers: the outlook for corporate profits may be threatened if Eddie George, governor of the Bank of England, persuades the government to increase interest rates

■ ANNUAL REPORTS – By William Lewis

Pay pages turn over a new leaf

Radical improvements in the way companies disclose details of directors' pay is the dominant theme of the 1994 annual reports so far sent to shareholders. For once the focus has shifted from the size of year-on-year salary rises to what directors are now willing to reveal to shareholders about their pay.

It is clear from many of the annual reports that substantial changes have occurred in the way companies such as British Gas and National Westminster Bank give shareholders details of directors' pay.

The changes are emerging at a crucial time in the debate on executive pay in the UK. The Greenbury committee, set up with governmant backing under the chairmanship of Sir Richard Greenbury, chairman of Marks and Spencer, is attempting to design guidelines for companies to follow on executive pay.

Following attacks by Mr Gordon Brown, shadow chancellor, on share option profits made by directors of privatised utilities, Mr John Major, the prime minister, said he would consider introducing legislation once the Greenbury committee has published its report.

The committee is certain to racommend that companies give full details of directors' pay to shareholders. One remuneration consultant said: "We are not daft, we can see this coming and so we are telling clients that they should get in first."

At British Gas, which is facing a revolt at its annual meeting on changes to its directors' remuneration structure, the annual report has five pages of details on pay. A breakdown of each director's salary is given, pension details, information on share options and an explanation of a new bonus scheme.

However, one fund manager warns: "Some companies may have to be forced kicking and screaming into this new transparent world."

■ JOBS – By Gillian Tett

Behind the gloss lurks insecurity

If Mr Kenneth Clarke, the chancellor, seeks reasons for the current "feel-bad" factor, he need look no further than the recent company results. For in spite of rising corporate profits over the past year, there has been little respite from company job cuts.

At the largest end of the scale, recent examples include an announcement of 1,750 job losses at Midland Bank, 2,200 job cuts at Northern Foods and 1,500 at British Aerospace's missile making subsidiary.

On a more moderate level, Laura Ashley is shedding 200 staff from its clothing and furnishings groups, while Taylor Woodrow has announced 250 losses from its construction division. Meanwhile, trimming in smaller companies has left employee roll calls falling across a range of sectors.

At face value these job cuts appear puzzling – official unemployment figures point to steady job growth in recent months, even in areas such as construction. The key to understanding these apparent contradictions lies not in the official data, but in the details of what managers are saying. For although most companies remain determined to control labour costs, they are doing so as much by changing the nature of jobs and pay, as by shedding numbers.

On the one hand, a drive to boost productivity is reducing staff in some sectors. Midland Bank says its job losses are partly aimed at cutting out a tier of middle management at head office.

Cornwell Parker, the furniture group, is meanwhile seeking improved productivity. While its turnover has remained broadly constant in recent years, and its employee numbers have fallen, the group plans to merge two factories to reduce labour costs further by cutting 85 jobs.

On the other hand, behind the noise of companies keen to trumpet productivity gains, job growth is still occurring in some sectors – albeit more slowly and quietly.

Rover, for example, recently announced that it would hire 2,000 to expand car production. "Clearly labour costs have increased, but the increase has been in line with expected returns," says Mr Ian Strachan, group spokesman, who says overall labour costs will rise 10 per cent this year.

But other job creation has been less visible. Dalepak, for example, announced 75 job losses at the Hull food processing plant it took over from Ross Young. But it is also creating 70 jobs at the plant as part of restructuring – albeit in a climate of tight wage control and further efficiency gains, according to Mr Peter Holley, finance director.

At Taylor Woodrow, 250 jobs have been shed in its construction sector while 100 jobs have been created in the wholesale and marketing arm. It believes there has been additional job creation among its house building subcontractors.

As Taylor Woodrow's story indicates, many of these new jobs are apt to occur among subcontractors or consultants. And although this trend lends a gloss to corporate efficiency, it does little to breed any security – or "feel-good" factor – among remaining employees.

■ SECTORS – By Christopher Price

Overseas markets prompt the biggest surprises

Export-oriented manufacturing companies provided tha biggest surprises of tha results season, exceeding market expectations on earnings and dividends and leading the way on forecast upgrades for 1995. However, the sluggishness of the domestic economy produced disappointments among some consumer industry groups.

It has been the strength of the US economy and the continuing recovery in continental Europe, underpinned by the weakness of sterling which have provided the basis for the outperformance of a number of the UK's big industrial groups.

According to Charterhouse Tilney, the stockbroker, the manufacturing sector scored a 34 per cent growth in profits against a forecast 31.5 per cent. The broker has upgraded its estimate of earnings growth for 1995 from 20 to 24 per cent.

In the engineering sector, British Aerospace, TI Group, Vickers and Rolls-Royce reported strong earnings growth, delivered upbeat trading statements. Société Générale Strauss Turnbull, the stockbroker, has upgradad 1995 earnings forecasts for the sector by 5 per cent, while the dividend growth expectation has been lifted 4 per cent.

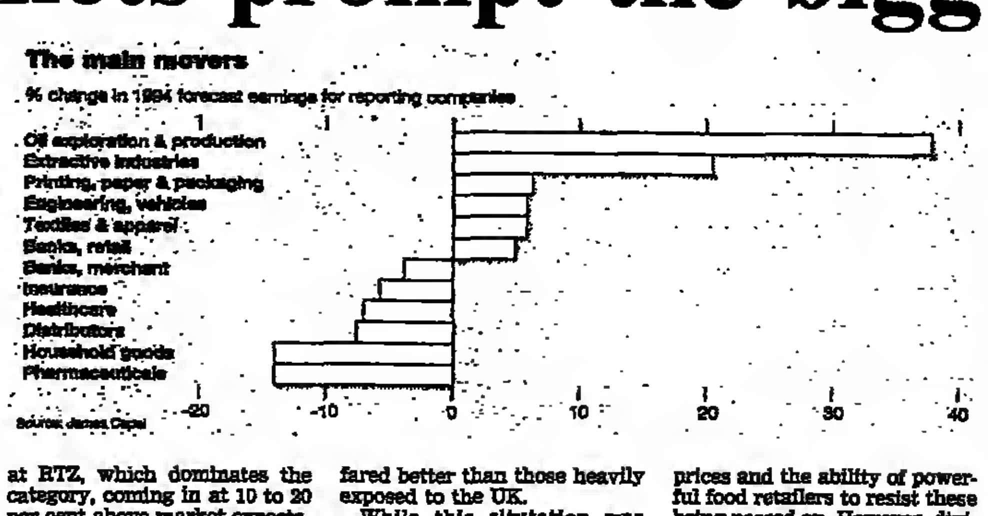
Diversified industrials outperformed earnings forecasts by 9 per cent in 1994. Ona bright spot was the performance of BTR, which allayed City fears over margins when posting a 14 per cent rise in operating profits to £1.48bn, on sales up 12 per cent to £9.11bn.

Among vehicle engineering groups, GKN saw pre-tax profits more than double to £200.3m and T&N had strong earnings growth, although it announced its intention to cut the 1995 dividend. SGST has upgraded 1995 earnings forecasts by 6 per cent. Dividend forecasts have been shaved by the same amount.

Extractive industries was the top performing sector, earnings

The main movers

% change in 1994 forecast earnings for reporting companies



Source: James Capel

at RTZ, which dominates the category, coming in at 10 to 20 per cent above market expectations.

The slow revival in consumer demand led to some disappointing performances. This was most apparent among food manufacturers where groups with strong overseas interests – such as Unilever, Tate & Lyle and Cadbury Schweppes – fared better than those heavily exposed to the UK.

While this situtation was largely anticipated, it was the accompanying downbeat statements that led analysts to downgrade their earnings forecasts for 1995 by an average 5 per cent. Analysts remain concerned over the squeeze on food producers' revenuee between rising raw material prices and the ability of powerful food retailers to resist these being passed on. However, dividend expectations have been moderately strengthened.

Media companies scored well on SGST's figures, coming in 4 per cent ahead of forecast earnings and 3 per cent up on dividend expectations. The broker is raising its forecast by 4 and 9 per cent respectivaly. Charterhouse disagrees, believing the sector will disappoint in comparison to its rating. James Capel had shaved its media earnings forecast by 2 per cent for 1995.

The rest of the retail sector, including food and atores, are under-represanted in tha December year-end contingent: Iceland was the only large supermarket group to report. Likewise household goods, breweries, electronic and electrical equipment, leisure and hotels, electricity, telecommunications, water and other services and businesses have had disproportionately few companies reporting.

There were some spectacular gains among building and construction groups, although the recovery had been mostly factored in by the market. Among the highlights were the 42 per cent rise in pre-tax profits at Barratt Developments and Taylor Woodrow's 68 per cent increase.

Charterhouse, which calculates the sector's average profits rise at 45 per cent, expects growth of 35 per cent in 1995 – 20 per cent ahead of the market average – as the slow recovery in the housing market is sustained and costs are contained. Dividend growth is forecast at 10 per cent. The building materials sector showed similar gains.

Oil explorations groups came largely in line with market forecasts, but surprised with larger than expected dividend rises. The chemicals sector posted a strong showing dominated by ICI, which increased underlying pre-tax profits 84 per cent to £514m. SGST has raised its earnings forecast for the sector by 10 per cent.

Banks provided the highlight in the financial sectors, increasing profits by 60 per cent against Charterhouse's expectations of 50, and posting a healthy dividend rise. SGST is raising its dividend forecast by 7 per cent for 1995 and its earnings forcast by 4 per cent.

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FINANCIAL TIMES

MARKETS

THIS WEEK

Global Investor / **Gerard Baker in Tokyo**

Banks' capital cushion loses its stuffing

A cynic might have said it had been planned deliberately. On March 28, three days before the end of the financial year, two of Japan's largest banks announced their intention to merge and become the biggest bank in the world. As usual with mega-mergers, the Bank of Tokyo-Mitsubishi news lifted a depressed stock market and the Nikkei 225 Index jumped nearly 600 points.

But it so happened that it was also a crucial week in the intimate relationship between Japanese banks and share prices. At the end of the financial year, on March 31, banks are required to mark up losses on their enormous holdings of equities in other companies. Shares bought when the Nikkei 225 was lower than its year-end figure must be marked to market as revaluation losses. Conveniently, the leap induced by the merger meant those losses were rather smaller than they would have been had news of the deal not been leaked.

But although the merger brought banks a little respite from the continuing vicissitudes of the country's financial markets, it was by no means enough to eliminate them.

They still face a serious headache as they do their sums in time for the reporting season next month: how to prevent haemorrhaging of their capital.

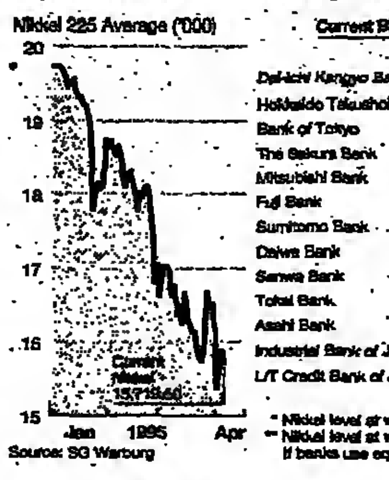
Equity revaluation losses will hit hard. The Nikkei's financial year-end level, at 16,140, was its lowest since 1986. The leading commercial banks have bought more than Y2,000bn in stocks since September 1992, when the Nikkei 225 closed at 17,400. This suggests the banks are sitting on substantial losses which they must report this year.

That would be bad enough, but the real problem for lenders is that these losses significantly compound their ability to deal with what is still their overwhelming problem – bad loans. In the past year the pile of problem loans seems to have peaked, but remains disturbingly high despite much more aggressive provisioning.

The banks, despite these large provisions, have continued to report profits – not from their rather anaemic operating profits, but by realising gains on equities they bought when the market was much lower.

Japanese banks and share prices

Nikkei 225 Average ('000)



Source: SG Warburg

	Current BIS ratio (%)	Critical capital levels (Nikkei '000) 1*	2**
Dai-Ichi Kangyo Bank	9.40	13.4	15.9
Hokkaido Takushoku	9.22	14.3	18.3
Bank of Tokyo	10.62	13.3	11.4
The Sakura Bank	9.58	13.7	18.7
Mitsubishi Bank	9.89	11.7	12.0
Fuji Bank	9.65	12.6	13.4
Sumitomo Bank	9.70	12.8	13.8
Daiwa Bank	9.30	14.9	16.4
Sanwa Bank	9.94	11.5	12.3
Tokai Bank	9.60	13.6	16.1
Asahi Bank	9.66	12.9	13.7
Industrial Bank of Japan	9.33	13.4	14.3
L/T Credit Bank of Japan	9.36	12.7	14.2
Average		13.1	14.5

* Nikkei level at which BIS ratio falls below 8%
** Nikkei level at which BIS ratio falls below 8%, if banks use equity gains against bad loans

The losses brought about by a falling stock market this year will mean that banks will be forced to step up the sales of those other equities if they are to avoid reporting unprecedented losses. Analysts estimate that the largest 21 banks still have gains up to Y8,000bn in their war chests to fight off the combined privations of a falling market and bad loan provisions.

The difficulty is that to do so will seriously weaken their capital base. Banks are allowed to count unrealised gains on their equity holdings as a proportion of their capital base. Under a somewhat controversial agreement with the Bank for International Settlements, they are permitted to count 45 per cent of their unrealised gains on equities as "Tier 2" capital – capital other than shareholders' equity and reserves. For the Japanese these gains have been crucial in maintaining even their flimsy capital assets ratios.

For the main banks, the average basic capital/assets ratio is under 9 per cent, considerably lower than the 12 per cent recorded by some leading US banks, and dangerously close to the BIS minima.

Total return in local currency to 6/4/95

	US	Japan	Germany	France	Italy	UK
	% change over period					
Cash						
Week	0.12	0.04	0.09	0.15	0.20	0.12
Month	0.51	0.20	0.41	0.57	0.89	0.54
Year	4.88	2.44	5.38	5.94	8.25	5.75
Bonds 3-5 year						
Week	0.47	0.95	0.60	0.37	0.08	0.36
Month	1.82	2.83	2.65	2.42	1.29	1.99
Year	5.29	6.85	5.26	3.08	0.72	5.02
Bonds 7-10 year						
Week	0.61	1.44	0.79	0.15	0.04	0.28
Month	2.68	4.35	3.19	3.46	2.65	3.28
Year	6.37	8.30	2.88	-0.88	-8.72	3.85
Equities						
Week	0.8	-3.5	3.2	0.3	-1.9	0.9
Month	4.3	-6.1	-4.4	6.7	-4.4	6.9
Year	16.4	-19.2	-10.2	-7.9	-15.8	5.0

Source: Cash & Bonds – Lehman Brothers. Equities-© NatWest Securities. The FT-Actuaries World Indices are jointly owned by The Financial Times Limited, Goldman Sachs & Co., and NatWest Securities Limited.

The gradual whittling away of those gains over the years to offset bad loan losses has seen this capital cushion diminish further. When banks sell shares to unlock gains they normally buy them back immediately in order to maintain their equity relationships with other companies. So a rising proportion of their equities is now booked at market value – thus unrealised gains are declining and capital ratios are being squeezed.

The consequences for the economy as a whole are deeply troubling. As banks' capital declines, their ability to lend will decline faster, damaging further prospects for a healthy economic recovery.

How serious is the threat? At current stock market levels, most banks are just above the BIS minima. But that slim margin disappears if they continue to use equity gains to offset their loan losses. According to research by Mark Faulkner, financial sector analyst at SG Warburg in Tokyo, at the current level of the Nikkei 225 stock average, 10 of the leading 21 banks would see their ratios fall below BIS minima if they accounted for all their problem loans in this way.

If the market falls further, several other banks would be dragged under the minimum capital levels. And if banks chose not to offset their loan losses with equity sales, they would, of course, be forced into the red.

Sumitomo Bank has already announced that it will pursue this path when it declares its results. But this strategy, of course, has similarly damaging effects on banks' capital. After-tax losses will diminish Tier 1 capital by reducing reserves. Sumitomo's decision will have the effect of reducing its capital ratio by almost 1 percentage point. Few banks, however, have Sumitomo's capital strength to enable them to follow suit.

Either way, banks will see a small capital base shrink further, unless the stock market stages an unlikely spectacular recovery.

The lesson in all this is familiar, but more important than ever. Japanese banks are under-endowed with real capital, and too dependent on the increasingly phoney capital of equity prices. Until they act to redress that balance, most of them will remain in an undercapitalised limbo, trusting to luck in an a capricious stock market.

Economics Notebook / **Robert Chote**

When flexibility equals insecurity

A wise and cynical US government official remarked at last year's international jobs summit in Detroit: "When you hear the words labour market flexibility, watch out for your wallet."

That warning will certainly ring true with the employees of UK companies like Laura Ashley, Northern Foods and Midland Bank, each of which has announced big redundancy programmes in recent weeks. Coming three years into a recovery, these job cuts provide a salutary reminder that one person's flexibility is another's insecurity.

Even so, the government has been unrepentant in its attempts to grease the wheels of the labour market over the past 15 years. Ministers argue that this will enable the economy to sustain lower rates of unemployment without putting upward pressure on inflation. Most of the relevant initiatives can be interpreted as attempts to cut the cost of hiring and firing.

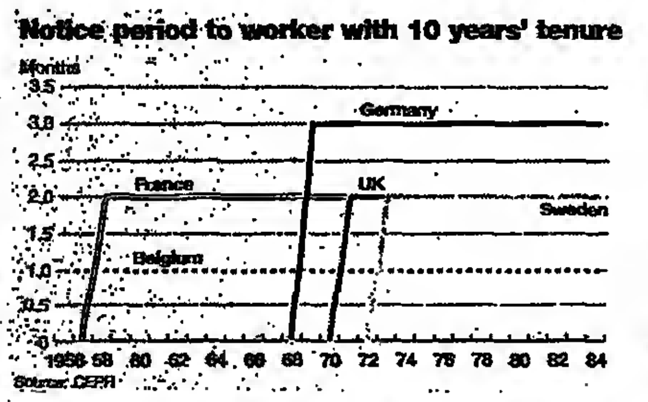
Take some examples. First, the period employees have to work for a company before being able to seek legal redress for unfair dismissal was doubled to two years in 1985. This makes it easier to shed unwanted labour taken on relatively recently.

Second, legislation has made it more difficult for trades unions to organise strikes in response to redundancy announcements. This can also be seen as an indirect attempt to make firing easier.

Hiring costs have been reduced too. Schemes like the Department of Employment's Restart programme have helped (not to say forced) the unemployed to look more effectively for work, so companies have less need to use recruitment agencies.

Benefits have also been made more difficult to claim and less generous relative to

Notice period to worker with 10 years' tenure



Source: CEPR

earnings, encouraging more people to apply for every job.

But judging the impact of such measures on the flexibility of the labour market is far from easy. It is tempting simply to draw a conclusion from the rate of unemployment at which inflation begins to rise. If measures to boost flexibility have been successful, so the argument goes, this "natural" unemployment rate should have fallen since the 1980s.

Alas, it is not quite that simple. Inflation can rise while unemployment is still above its natural rate. Greater flexibility in wage and price setting may mean that inflation "overshot" downwards after the recession. If so, it would rebound automatically to a level more consistent with people's expectations, whatever the rate of unemployment. This means it would be wrong to conclude that flexibility had not improved simply because inflation picked up while unemployment was still high.

A study by Bob Anderton and Soterios Soteri at the National Institute of Economic and Social Research makes a rather more rigorous attempt to assess changes in the flexibility of the UK labour market. It calculates "persistence": the delay before unemployment returns to a sustainable level after a temporary increase.

Most of the above measures should increase flexibility and so reduce persistence. But the study notes some evidence that persistence may have risen during the 1980s. For example, overtime working per head in manufacturing rose in the second half of the decade. It argues: "Even at a relatively high unemployment rate, when labour supply is plentiful, employers now seem more willing to incur overtime premiums rather than increase the workforce."

Anderton and Soteri conclude that the speed with which the labour market adjusts to disturbances may have become asymmetric in the 1980s; that is, it responds more quickly when unemployment is falling than when it is rising. This may be because firing costs have fallen more than hiring costs.

Another possibility is that the demand for labour has been made more flexible but the supply of it has not. This may reflect a wider disparity between the types of jobs on offer and the types of workers available to do them.

Anderton and Soteri draw on familiar explanations to explain why this might be the case. They argue that the UK's skills base may have atrophied because of rises in long-term unemployment.

The paper depicts the UK labour market as one in which unskilled and semi-skilled male former factory workers struggle to find jobs in an economy dominated by a service sector which would rather employ low-paid, female part-timers: "If, in addition, labour market reforms have had an asymmetric impact upon labour demand, a core group may experience further difficulties in re-entering employment."

But perhaps just as persuasive an explanation for the continued inertia in the labour market is uncertainty about macroeconomic developments. Both hiring and firing are, in effect, investments, with costs that cannot be recouped by reversing the decision. So the transition from boom to deep recession may well have instilled a nervousness that makes companies reluctant to hire or fire, but especially the former.

These uncertainties only demonstrate how difficult it is yet to assess the profound structural reforms carried out in the UK labour market during the 1980s. The task is not eased by the poor quality of labour market data, which will be highlighted again in two days' time when the Department of Employment rewrites history to accord with the 1991 census. It may be a long time before the statistical dust has settled and the flexibility debate can confidently be resolved.

**The Determination, Persistence and Flexibility of UK Employment and Unemployment, by B Anderton and S Soteri, NIESR discussion paper.*

COMMODITIES — Richard Mooney

Coffee scheme may be delayed

The new coffee export retention scheme agreed by producing countries last month is due to come into operation tomorrow – provided market levels do not rise dramatically. But disagreements between Brazilian exporters and growers on how to implement the plan has raised doubts about its starting on time.

"The implementation of the scheme, which is resting on Brazil's shoulders, will most likely be delayed," a Latin American delegate to the Association of Coffee Producing Countries told the Reuters news agency on Friday.

"It is a mess," he said. "We are all waiting for Brazil to decide."

The ACPC countries agreed to retain up to 20 per cent of their exports if prices of arabica and robusta beans on world markets were below predetermined levels by April 11. Informal calculations suggest that at present prices are just below the trigger for a 20 per cent cut on exports of arabica coffee, the mild type produced chiefly in Latin America, and around the trigger for a more modest 10 per cent cut on robusta, produced mainly in Africa and Asia.

Participating countries, including leading arabica producers Colombia and Brazil and key robusta producers Ivory Coast and Indonesia, had to choose between the use of export quotas or retention before April 11.

But despite the problem of Brazil's indecision, a Central American delegate to the ACPC, who requested anonymity, told Reuters that there was no prospect of the scheme being scrapped.

"That would be suicidal," he said. "It may be delayed but it can't be forgotten."

Following an informal meeting of representatives from the private sector, held during an international coffee week in Varginha, Minas Gerais, Brazil's main coffee state, Mr Jair Coser, president of Brazil's Federation of Coffee Exporters, said: "One thing is certain – Brazil will fulfil its commitment to the Association of Coffee Producing Countries."

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY APRIL 7 1995 US Dollar Index	%chg since 30/12/94	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 30/12/94	Gross Div. Yield	THURSDAY APRIL 6 1995 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (83)	170.67	-0.6	167.49	90.79	122.55	153.11	4.0	3.96	170.46	157.12	91.99	121.97	152.96	180.82	157.95	168.06
Austria (27)	187.66	2.7	173.16	99.93	134.74	134.89	-8.5	1.26	187.67	172.98	101.28	134.28	134.21	198.89	167.46	177.36
Belgium (35)	187.75	11.5	173.24	99.57	134.80	181.41	-0.6	4.02	186.93	172.29	100.88	133.75	180.44	187.75	161.53	181.53
Brazil (28)	116.97	-26.3	107.94	62.22	83.99	193.46	-23.9	1.67	119.56	110.20	64.52	85.55	196.97	-	-	-
Canada (103)	133.06	2.9	122.81	70.80	95.56	134.10	2.0	2.60	134.13	123.83	72.39	95.96	134.93	140.25	120.54	130.26
Denmark (33)	260.45	3.4	240.39	138.55	187.01	182.50	-7.6	1.65	262.75	242.18	141.80	188.00	194.01	275.27	236.81	255.44
Finland (24)	188.18	1.2	173.65	100.10	135.12	167.96	-9.2	1.42	188.13	174.33	102.07	135.33	188.25	201.41	138.89	142.09
France (101)	185.25	13.3	170.94	98.54	133.01	139.57	1.9	3.07	184.46	170.02	99.54	131.98	138.81	185.25	157.79	167.86
Germany (59)	150.24	6.0	138.63	79.92	107.87	107.87	-5.5	2.06	150.35	138.59	81.14	107.58	107.58	154.61	132.06	136.58
Hong Kong (55)	339.99	4.2	313.73	180.86	244.12	337.51	4.2	3.99	339.01	312.47	182.95	242.57	338.53	418.42	277.40	384.01
Ireland (16)	218.24	5.8	201.39	116.10	156.71	190.26	1.1	3.57	217.86	200.81	117.57	155.89	189.55	218.24	180.57	181.18
Italy (58)	68.80	-8.5	63.31	36.49	49.28	87.18	-4.0	1.78	67.98	62.66	36.69	48.65	86.89	87.78	65.45	87.11
Japan (483)	151.63	-3.4	139.92	80.66	108.98	80.66	-18.5	0.94	150.11	138.36	81.01	107.41	81.01	170.10	138.95	163.88
Malaysia (97)	486.74	1.5	449.15	258.93	349.50	467.40	-0.8	1.71	492.67	454.11	265.68	362.53	473.04	594.76	398.16	441.48
Mexico (18)	949.88	-32.9	876.33	505.19	681.89	6609.00	-13.3	1.64	920.44	848.39	496.73	668.59	6506.13	2414.12	647.81	1937.88
Netherland (19)	238.83	9.8	220.38	127.05	171.49	168.52	-2.2	3.75	237.88	219.27	128.38	170.22	167.32	238.83	194.56	194.67
New Zealand (14)	78.94	13.5	73.77	42.53	57.40	83.99	9.5	4.59	79.29	73.08	42.79	56.74	83.91	79.94	63.45	64.65
Norway (33)	216.23	1.4	199.53	115.02	155.26	181.83	-7.1	2.32	217.74	200.70	117.51	155.80	182.88	217.74	177.53	188.94
Singapore (44)	360.17	-3.5	332.36	181.59	258.61	233.00	-7.0	1.85	362.73	334.34	195.75	259.65	234.94	401.38	311.45	311.45
South Africa (58)	352.62	4.7	325.98	187.58	253.19	278.70	-7.7	2.46	353.13	325.48	190.57	252.67	277.08	353.13	205.55	227.11
Spain (38)	135.25	2.5	124.80	71.95	97.11	127.18	-3.4	4.48	132.90	122.49	71.72	95.09	126.46	150.21	124.10	139.94
Sweden (48)	243.05	4.2	224.28	129.29	174.52	264.22	2.9	2.18	240.90	222.05	130.01	172.38	263.71	247.40	196.70	213.49
Switzerland (47)	184.91	11.9	170.62	98.36	132.76	130.00	-3.0	1.93	185.67	171.14	100.20	132.85	129.82	185.67	149.91	160.60
Thailand (46)	136.39	-13.8	125.86	72.56	97.94	130.12	-15.6	3.26	137.82	127.03	74.38	98.52	131.53	-	-	-
United Kingdom (203)	208.93	7.2	192.79	111.14	150.02	192.79	4.4	4.25	208.49	192.17	112.52	149.18	192.17	208.93	181.11	188.54
USA (510)	206.99	10.2	190.91	110.06	148.55	206.89	10.2	2.75	206.79	190.57	111.58	147.94	206.76	206.89	179.72	183.85
Americas (659)	189.39	8.7	174.76	100.75	135.89	158.97	9.0	2.72	189.32	174.50	102.17	135.46	158.92	-	-	-
Europe (741)	180.89	7.1	167.01	98.28	129.95	150.54	-0.1	3.23	180.55	166.42	97.44	129.18	150.04	180.99	160.59	165.20
Nordic (138)	233.46	4.0	215.42	124.18	197.83	207.74	-1.4	1.98	233.10	214.85	125.78	168.79	206.18	235.72	197.70	204.72
Pacific Basin (822)	159.86	-2.7	147.52	85.04	114.79	91.00	-15.7	1.32	158.56	146.15	85.57	113.45	81.36	176.86	145.93	162.03
Euro-Pacific (1563)	168.57	1.5	155.55	89.67	121.03	113.47	-9.1	2.17	167.62	154.50	90.46	119.84	113.55	175.14	154.73	163.20
North America (613)	202.32	9.9	186.69	107.62	145.27	201.96	9.8	2.74	202.26	186.43	109.15	144.72	201.86	202.32	176.47	180.52
Europe Ex. UK (538)	162.04	7.1	149.53	86.20	116.35	127.15	-2.5	2.65	161.82	148.97	87.22	115.84	126.72	162.04	144.12	148.88
Pacific Ex. Japan (339)	241.00	1.2	222.39	128.20	173.05	211.19	1.3	3.30	241.45	222.55	130.30	172.77	211.69	273.13	211.19	242.21
World Ex. US (1771)	169.05	1.0	155.99	89.93	121.38	116.87	-9.6	2.18	168.18	155.02	90.76	120.34	116.97	178.85	155.42	163.95
World Ex. UK (2078)	177.60	3.9	163.88	94.47	127.52	138.35	-3.2	2.16	178.95	163.10	95.50	126.51	138.45	178.59	163.46	167.73
World Ex. Japan (1798)	197.95	7.5	182.10	104.98	141.70	182.92	4.7	2.95	197.16	181.73	106.40	141.07	182.89	197.35	176.74	179.90
The World Index (2261)	180.34	4.2	166.41	95.93	129.49	143.06	-2.5	2.39	179.71	165.64	96.98	128.59	143.10	180.80	165.92	169.57

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local); Brazil, Thailand and Americas: Oct 31, 1994 = 180.44 (US $ Index), 164.07 (Pound Sterling) and 148.84 (Local). Constituent changes during the week ending 7/4/95: Deletions: Hitachi Sales (Japan) and [illegible] Energy (USA).

WORLD BOND MARKETS: This Week

NEW YORK — Maggie Urry

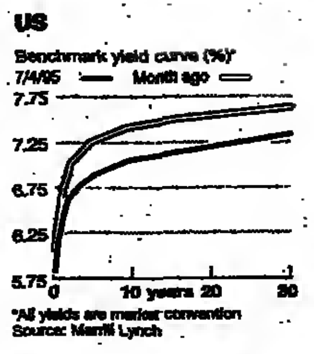
The US Treasury bond market is vulnerable to any hint of higher inflation, as it showed on Friday when confronted with a slightly worrying indication from the Columbia University inflation index.

The market reversed an early rise, on weak jobs data, and the long bond yield, which had fallen to 7.34 per cent by Thursday night, backed up on Friday afternoon to almost 7.4 per cent.

So bond dealers will be watching this week's economic news carefully. Developments in the currency markets will also be followed keenly.

A slew of economic statistics is due, starting with the producer price index on Tuesday, which is expected to show a 0.2 per cent rise, down from 0.3 per cent in February. A 0.3 per cent increase, the same as in February, is forecast in the consumer price index, due on Wednesday.

Economists expect a bounce in retail sales figures on Thursday from the fall in



*All yields are market convention
Source: Merrill Lynch

February, to a 0.4 per cent rise in March.

The markets will be closed on Friday but investors will be watching for signs of economic slowdown in data for March industrial production, expected to fall by 0.1 per cent after February's 0.5 per cent rise. Capacity utilisation is forecast to slip to 85.5 per cent from 85.7 per cent. Business inventories are predicted to have risen by 0.9 per cent in February, the same as in January.

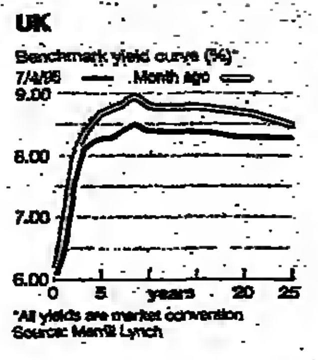
LONDON — Martin Brice

Gilt market investors will be casting a careful eye over the raft of UK economic data due this week.

Investors might become nervous over the outlook for interest rates if the figures are disappointing. While interest rates have not yet changed since the monthly monetary policy meeting on Wednesday between Mr Kenneth Clarke, the chancellor and Mr Eddie George, the governor of the Bank of England, there is a chance that the two may have agreed to increase rates once they have seen the latest economic indicators.

Producer prices for March are due today and the CBI Distribution Survey for March on Tuesday. Wednesday sees March unemployment figures, and average earnings and manufacturers' costs for February.

Figures for retail prices, due on Thursday, will be studied for signs of inflation. Prices for March are expected by brokers Williams de Broë to have risen



*All yields are market convention
Source: Merrill Lynch

by 0.4 per cent on the month, with the same figure for prices excluding mortgages, and prices excluding mortgages and indirect taxes.

The January balance of payments figure is also due on Thursday.

Friday and next Monday are UK holidays when investors can worry about the contents of the minutes of the March 8 meeting of Mr Clarke and Mr George, which are published on Wednesday.

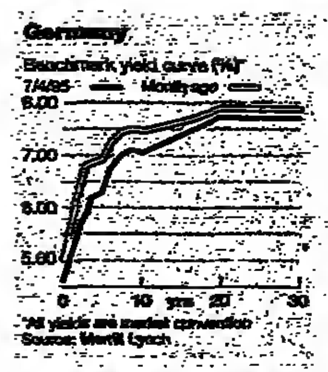
FRANKFURT — Andrew Fisher

As the Bundesbank's latest easing has become absorbed by the markets, attention has shifted again to the fiscal policies of countries inside and outside Europe.

The markets have punished the currencies and bonds of those countries, such as Italy, which have high budget deficits and debt problems.

Bundesbank directors, including president Hans Tietmeyer and vice-president Johann Wilhelm Gaddum, have made clear that intervention on currency markets can only have a limited effect if countries, including the US, do not put their own houses in order.

The European Monetary Institute, forerunner of the planned European central bank, said economic convergence under the Maastricht Treaty is not yet adequate to prevent pressure from currency and bond markets. With only Germany and Luxembourg meeting inflation, debt and budgetary



*All yields are market convention
Source: Merrill Lynch

criteria last year, the markets still have plenty of targets.

With German inflation down to an annual 2.3 per cent rate in March and money supply under control, the Bundesbank felt able to cut its rates last month as the D-Mark remained strong. This week, the first variable rate repo tender for some months is expected to show no appreciable change from the 4.50 per cent at which last week's fixed-rate operation was conducted.

TOKYO — Emiko Terazono

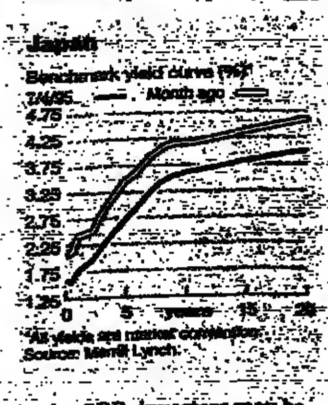
The appreciation of the yen to record levels and the decline in stock prices have spread pessimism over the expected economic recovery, supporting the Japanese government bond market.

The fall in overnight call rates as a result of the Bank of Japan's easing has also been a positive factor for bond prices, with the yield on the 10-year benchmark edging towards 3.4 per cent.

However, traders say volume has remained subdued compared with last month, when hopes of a cut in the official discount rate prompted a rush of buying.

Although some analysts say continued sluggishness in demand for funds among corporations will prompt further bond investments by institutions, there is no clear evidence that this is happening.

How much further yields will fall remains to be seen, but since bond prices have discounted a 50 basis point cut



*All yields are market convention
Source: Merrill Lynch

in the ODR, investors may be wary of buying up the market at current levels.

Volatility on the stock market and strength of the yen is likely to help the bond market in the short term. If the this week's government's emergency economic support package disappoints investors, the bond market could see a rally.

However this will mean the market will be increasingly vulnerable to adverse news.

German bunds

Yield prospects hinge on US Treasuries

The strength of the German bund market and the unusual steepness of the German yield curve were the main focus of interest in European government bond markets last week.

The 10-year benchmark bund yield came close to breaking downwards through the 7 per cent level for the first time since August last year, while the gap in yield between three- and 10-year paper widened to over 125 basis points, its widest since 1988.

The catalyst was the unexpected decision by the Bundesbank on March 30 to lower the German discount rate by ½ percentage point to 4 per cent and to cut the securities repurchase rate to 4.5 per cent.

Investors initially reacted to the cuts with dismay, suspecting that they were done for political reasons to support the ailing dollar rather than for domestic economic reasons.

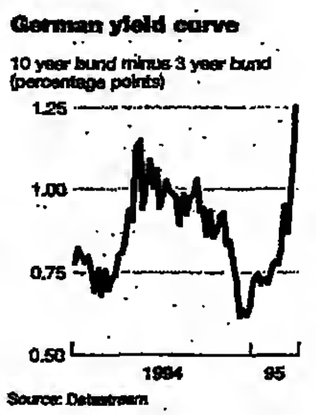
The yield curve steepened sharply as investors switched to shorter-dated debt from the more vulnerable longer-dated maturities.

However, investors then began to reassess Germany's growth prospects after the interest rate cut and in view of the D-Mark's continued strength, which looks set to eat into exports and slow economic growth.

This fuelled renewed demand for longer-dated German debt, as investors moved out along the yield curve to capture the higher yields on offer there and also in anticipation of substantial price appreciation should yields begin to fall as growth slows and inflationary pressures decline.

"There is now a better tone to bunds, helped by the unexpected loosening of monetary policy, but also the initial concern that policy had become too lax has now been balanced by the strong D-Mark and the feeling that monetary conditions overall remain tight," said Mr Stephen Hannah, director of research at IBJ International in London.

The renewed investor interest in D-Mark debt spilled over from the domestic government bond market into the international market with a flood of D-Mark-denominated eurobond issues.



Source: Datastream

Of this year's DM21bn issuance so far, DM7.5bn was brought to the market last week, triggered by the success of a 10-year DM3bn global bond launched by the World Bank. "This offering demonstrated that there is on-going demand for D-Mark debt," said Mr Paul Hearn, a managing director at J.P. Morgan in London.

Most analysts believe this strong demand for German debt is set to continue, with economic data due to be published over the coming weeks likely to point to continued weak inflationary pressures.

"Low money supply and inflation figures for March and April are likely to be seen as further vindication of the Bundesbank's move and will encourage people to believe, particularly with a strong D-Mark, that when the 7 per cent yield level is broken the market has the potential to rally to 6¾ per cent or lower," said Mr George Magnus, international economist at S.G. Warburg.

The appeal of moving further out along the yield curve to pick up an extra 120 basis points in yield and also to participate in any yield curve flattening that may occur – so-called "curve flattening" trades – should also remain.

"A number of accounts are taking advantage of the steepness of the yield curve," said Mr Hannah. "With short rates remaining low for at least the next few months, it makes sense to move up the yield curve to get a higher yield."

Following the Bundesbank's cut in interest rates, many analysts have revised back the date at which they expect the first rise in German interest rates to take place.

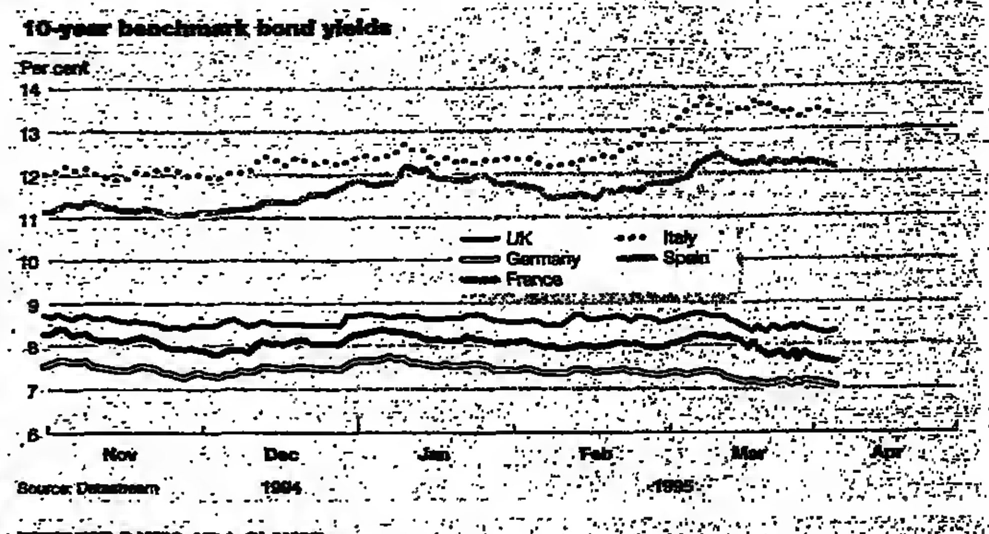
But both Mr Hannah and Mr Magnus remain cautious about how long the shift out along the yield curve will continue.

Mr Sanjay Joshi, chief economist at Daiwa in London, thinks the shift along the yield curve is likely to be short-lived, with the curve likely to continue to steepen. "Investors will not be looking at curve flattening trades as long as the D-Mark continues to appreciate."

As ever, much depends on what happens in the US Treasury market. If Treasuries weaken the rally in bunds is likely to be curtailed.

"While a move in yields below 7 per cent is quite plausible, it is contingent on the US market," said Mr Magnus. And the key to the Treasury market is likely to be how it withstands the fall in the US dollar, "the upshot of which," said Mr Magnus, "is bound to be higher US interest rates across the length of the yield curve".

Graham Bowley



Source: Datastream

INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	5.25	1.75	4.00	8.40¹	8.25	6.75²
Overnight	5.88	1.69	4.68	7.50	10.12	6.18
Three month	5.87	1.60	4.49	7.19	10.50	6.50
One year	6.32	1.50	4.80	6.89	11.31	7.50
Five year	6.93	2.72	6.34	7.24	13.20	8.23
Ten year	7.11	3.45	7.08	7.74	13.30	8.38

(1) France-Repo rate. (2) UK-Base rate. Source: Reuters.

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	104-27	104-12	-0-14	105-16	104-05	159,931	331,876
Sep	104-22	103-31	-0-13	105-02	103-24	495	17,406
Dec	104-08	103-18	-0-05	104-08	103-15	16	1,643

Emerging markets

Brady issues continue their rally

After a tumultuous beginning to the year, improvements in economic prospects of a number of developing countries are bringing much needed relief to the Brady bond market.

Despite some minor hiccups, a month-long rally in the price of Bradys – issued by governments in exchange for distressed commercial bank debt – continued last week. Since March 8, when prices in the $135bn market slumped to an historic low, prices have risen by about 18 per cent, according to an index compiled by West Merchant Bank.

"The strength of the rally has taken people by surprise. No-one had any idea that it would take prices as high as they have come," says Mr Richard Segal, an economist st Bank of America. "It has been one of the best four-week periods in the last two years."

The recent improvement still leaves the market well short of the levels reached shortly before Christmas, when a devaluation in Mexico plunged it into a steep decline. Yet many traders are confident that the market is bound for better times.

An improvement in macroeconomic conditions in Argentina and Mexico and the return of many high-yield investors to the market are the main reasons for renewed confidence.

The better performance recently by US Treasury bonds has also helped because 30-year zero-coupon Treasuries provide collateral for the Bradys.

"I think we've turned the corner," says Mr Alexis Rodzianko, managing director, emerging markets at Chemical Banking in New York. "The psychology has changed. It was sell on any rise – now it's buy on a dip," he says.

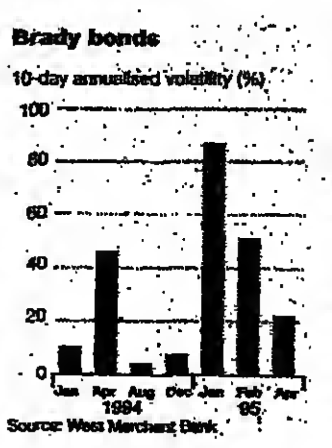
Fears that Argentina would be forced to devalue its currency, breaking the link with the dollar, have proved unfounded and the market has been buoyed by the agreement of $2.8bn in loans from the IMF, some $435m of which was to be disbursed on Friday.

Argentine Bradys have been the star performers over the past month, rising by 35.9 per cent between March 8 and April 7, according to the West Merchant Bank index.

"The financing package for Argentina removed the fear that the convertibility plan was about to collapse," says Mr Peter West, economic adviser at WMB.

"In Argentina, with reserves having recovered and Cavallo [Mr Domingo Cavallo, the economy minister] having demonstrated much more leadership, there are far fewer worries about convertibility than there were in February," says Mr Paul Luke, head of emerging market research at Morgan Grenfell.

Many investors are also now taking the view that the Mexican economic adjustment programme is viable, a perception which has helped bolster the battered currency and buoyed the local stock market.



Source: West Merchant Bank

Mexican Bradys rose by about 17 per cent in the month to April 7. By contrast, Brazil's performance has been relatively subdued, with an increase of 12.4 per cent.

Uncertainty about the country's economic performance and doubts about whether the government will show decisive action to curb inflation is responsible, but some analysts now expect Brazilian Bradys to rise, arguing that they are undervalued on technical grounds.

Outside Latin America, the prices of Russian debt on the secondary market have been helped by falls in inflation and indications that the government's economic reform programme is still on track. Russian Vnesheconombank debt has risen by almost 20 per cent since March 9.

Some other east European issuers have also done well. Bulgaria, for example, has risen by 24.4 per cent between March 9 and April 7.

There are increasing signs that US investors are prepared to come back into the market. Mr Rodzianko says US vulture and hedge funds are moving in, partially because they expect returns in the US domestic high yield market to fall and rates of default to rise as growth slows.

According to some observers, Latin American eurobonds were an initial focus of recent hedge fund interest and as liquidity in that market increased, many traders were able to close out short positions in the Brady market.

Analysts have different views on the future direction, with some arguing that Bradys are about to reach the top of their trading range. What is clear is that the market seems far from settled. Levels of volatility have increased sharply.

According to WMB, the 10-day annualised volatility of its own Brady bond price index rose to nearly 23 per cent on Thursday. This was well down from previous peaks of more than 80 per cent but it is still twice the levels of last year.

Mr Ousmène Mandeng, an economist at West Merchant, says that the rise in volatility may herald a change in the character in the medium-term of the Brady market, with its behaviour resembling that of an equity market.

Richard Lapper

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
US DOLLARS							
Norddeutsche Landesbank	250	Apr.1998	7.25	100.00R	7.250	+20(7¼%-98)	Goldman Sachs Intl.
Japan Highway Public Corp.(a)	500	Apr.2005	7.50	99.582R	7.561	+32(7½%-05)	IBJ International
Argentaria Global Finance‡	500	Apr.1997	(b)	99.95R	-	-	Lehman Brothers Intl.
International Finance Corp.	50	Apr.1998	5.00	95.51	6.702	-	Nikko Europe
Student Loan Mktng.Assoc.(s)	100	Nov.2000	7.20	100.268	-	-	LTCB International
Lodey§	85	Apr.2005	3.50	100.00	-	-	Jardine Fleming
STERLING							
European Investment Bank(d)	100	Dec.2000	8.75	100.574	8.597	+11(8%-00)	BZW
D-MARKS							
World Bank	3bn	Apr.2005	7.125	99.673R	7.172	+14(7⅛%-05)	Deutsche/ Goldman
Gems, Series A1	380	Apr.2000	6.625	99.495R	6.750	+43(7%-99)	JP Morgan
Gems, Series A2(e)★	142.5	Apr.2005	7.420	100.50	-	-	JP Morgan
Council of Europe	150	May.1999	6.375	100.39R	6.262	+9(5⅝%-99)	SBS(Deutschland)
De Nationale Investeringsbank	250	May.2000	6.625	102.105	6.124	-	ABN Amro/Commerzbk.
International Finance Corp.	60	Apr.1998	5.60	98.35	5.613	-	Nikko Bank (Deutsch.)
LB Rheinland Pfalz Finance	1bn	Apr.2005	7.25	99.939R	7.259	+24(7⅛%-05)	Lehman/ M.Stanley
CS First Boston	200	May.2000	7.125	99.75R	7.186	+65(7%-99)	CSFB-Effectenbank
Republic of Austria	1bn	May.2007	7.25	99.85R	7.269	+25(7⅛%-05)	Dresdner Bank
State of Sachsen Anhalt	600	Apr.2005	7.25	100.625	7.160	-	B.Vereinsbank/Goldman
Deutsche Ausgleichsbank	250	Apr.2001	6.75	101.84	6.371	-	Trinkaus & Burkhardt
Landwirt. Rentenbank	500	May.2000	6.50	99.83R	6.541	+22(7%-00)	Bq. Paribas (Deutsch.)
SWISS FRANCS							
City of Vienna(c)★	100	Apr.2001	5.25	102.875	4.669	-	von Ernst/Merrill Lynch
GECC	300	May.2002	5.00	103.50	4.408	-	UBS
Oesterreichische Kontrollbank	200	May.2000	4.75	102.125	4.269	-	Bank von Ernst & Cie.
Crédit Local de France	125	May.2002	4.75	102.375	4.349	-	Swiss Bank Corp.
BLA	100	May.2001	5.00	103.00	4.420	-	Credit Suisse
Landes-Hypothekenbank Tirol	100	May.2000	5.00	103.05	4.309	-	Credit Suisse
Oest. Kontrollbank(s)	100	May.2000	4.75	102.375	4.213	-	Bank von Ernst & Cie.
ITALIAN LIRE							
World Bank	150bn	Apr.1998	zero	90.82	10.05	-	Credito Italiano
GUILDERS							
Eurofima(f)	225	Jul.2001	7.00	100.95R	6.800	+10(8¼%-01)	ABN Amro Hoare Gvt.
GECC	250	May.2000	3.50	87.375R	6.541	+38(%-00)	ABN Amro Hoare Gvt.
LUXEMBOURG FRANCS							
DSL Finance(f)	2bn	Aug.2003	7.625	102.40	7.22	-	Crédit Européen
Kredietbank Luxembourg(f)	2bn	Jul.2001	7.375	102.50	6.85	-	Kredietbank Lux.
Caisse Francaise de Dev.(f)	2.5bn	Aug.2004	7.75	102.78	7.328	-	Crédit Européen
Becob Overseas(f)	2bn	Nov.2001	7.50	102.25	7.02	-	Becob Bank Lux.
Landwirt. Rentenbank	3bn	Dec.2001	zero	64.07	6.995	-	BGL
ECUS							
Samsung Electronics Co.‡	80	May.2000	(g)	99.825R	-	-	UBS
AUSTRALIAN DOLLARS							
Tray.Corp.of New Sth.Wales★	100	Apr.1998	4.50#	89.436	8.586	-	Nomura International
Kingdom of Sweden	100	May.1998	9.25	100.85	8.915	-	Hambros Bank
PESETAS							
Hipotebansa IV, Class A(e)‡	58.8bn	Jan.2019	(e1)	100.00	-	-	Morgan Stanley Intl.
Nordic Investment Bank	10bn	May.1998	11.08	101.25	10.57	-	Banco Bilbao Vizcaya

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ◊With equity warrants. ★Unlisted. #Semi-annual coupon and yield. R: fixed re-offer price. a) Amortises from 12/4/01. b) 3-mth Libor -⅛%. c) SFr200m launched 18/3/95 was increased to SFr300m. d) Fungible with £200m. Plus 159 days accrued. e) Mortgage securitisation. Av life 3.9 yrs. e1) 3-mth Libor +20bp. e2) Class B: Pta1.2bn, 15/1/19, av life 7.9 yrs, 3-mth Libor +70bp, par. f) Fungible with Fl 400m. Plus 294 days accrued. g) 6-mth Libor +⅛%. h) SFr200m launched 6/4/95 was increased to SFr300m. i) Over interpolated yield. j) Conversion price: Won4500. Fx: 24.55baht/$. Callable from Apr.98, subject to 140% hurdle, at accreted value. Puttable in Apr.00 at 131%. Greenshoe: 15%. l) Long 1st coupon. s) Short 1st coupon. Note: Yields are calculated on ISMA basis.

EMERGING MARKETS: This Week

The Emerging Investor / **John Barham**

Flavour of the month: Turkish Delight

Turkey may be unpopular in the foreign ministries of the western world following its incursion into northern Iraq, but it is very much the flavour of the month in dealing rooms around the globe.

For shell shocked emerging market investors, Turkey is one of the few bright spots in an otherwise dismal scene. The Istanbul stock exchange soared last month, bursting through one record barrier after another.

Many market watchers are sure that this bull run has a long way to go. Ms Zeynep Türkeri, general manager of Istanbul-based TEB Economic Research, says "what we are seeing is a correction. The stock exchange was very cheap. I do not think it will go hack [down] to its original level, this is structural."

The market crashed by half last year, but began coming back in February with a 15 per cent increase followed by a 37 per cent rise in March. Prices have climbed a further 12 per cent so far this month, with the market closing at 44,622 on Friday.

Mr Tim Talkington, of Istanbul's Global Securities brokerage, thinks there is still room for the market index to rise another 20 per cent before a correction sets in. In spite of the recent price surge, he puts the market's prospective price/earnings ratio at only 7.5.

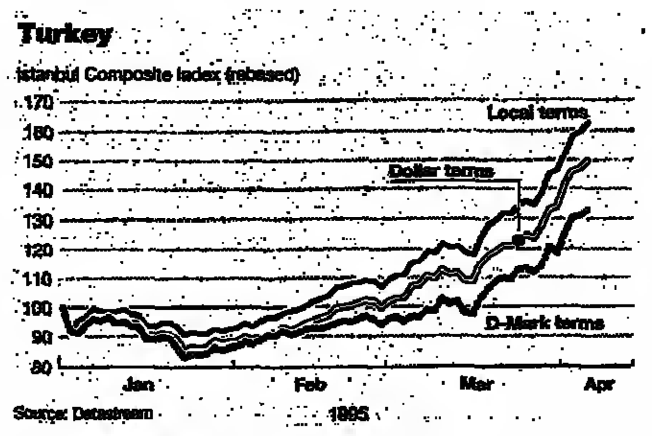
Trading volume has also hit new records of $350m a day, about six times more than on some of the grimmest days last year. Brokers say fresh cash inflows, fuelled by weakness in alternative currency, gold and bond markets continued to power demand for shares.

Buyers were further encouraged by a one-year bond auction where the Treasury cut the average interest on its paper by 22.39 points to 99.42 per cent.

For those outside Turkey, this bout of optimism will probably seem aurprising. After all, most of the recent news from Turkey has been unremittingly negative. At the beginning of March, the worst riots in 15 years exploded in Istanbul, killing over 20 people. On March 20 came the Turkish army'a incursion into northern Iraq, which further blackened Turkey's name internationally.

However, to locals the incursion came as a firm buying signal. They saw it is a sign that the government was preparing political reforms to deal with the Kurdish insurgency with a show of strength. The operation in Iraq also received positive coverage in the local media, strengthening Mrs Tansu Çiller, the deeply unpopular prima minister. Early elections, feared as a destabilising factor for the economy, now seem unlikely.

These positive trends were reinforced by the signing on March 6 of a long-delayed customs union treaty with the EU and the realignment in February of the governing coalition.



Source: Datastream

Even tha economy, which last year contracted by 6 per cent, looks relatively healthy. Inflation is slowing, bringing interest rates down with it. The balance of payments is recovering.

But although the market picked up with the army'a push into Iraq, economists worry how the government is financing the operation. If the army digs in for a long stay, economists fear the government may be forced to allow inflation, now at a relatively modest 4.1 per cent a month, to build up again.

Analysts are now poring over companies' 1994 results and are surprised by what they see. Many companies saw real earnings growth last year, even though wholesale price inflation hit 150 per cent and demand for all but the most essential goods collapsed.

TEB's analysts found that although listed companies' aggregate earnings fell by nearly a third in dollar terms to $2.16bn in 1994, about one in three of them were able to boost dollar earnings. This top third of the market increased profits by almost half to $898m.

Strangely, the most profitable companies are majority-owned by the government. TEB reports that Petkim, a petrochemicals company majority-owned by the government, saw earnings rise 132 per cent in dollar terms. Eregli Demir Celik, a steel producer also controlled by the government, increased profits by $96m, or 75 per cent, over 1993.

There is a simple explanation for such strong performance. In most cases, companiea managed to offset their falling sales revenues with easy earnings from high-yialding financial markets. At times, the government pushed interest rates as high as 80 per cent in real terms.

But despite all the positive vibrations from Istanbul, the country's political mood remains tense.

Turkey's economic fundamentals remain wobbly: industrial output fell 4 per cent in the first two months of the year; the government has not convincingly attacked its deficit; the currency is becoming overvalued.

Customs union, hailed as a political triumph for Mrs Çiller, will be a nightmare for many financially weak Turkish companies which must face increased competition from stronger EU-based rivals. Yet, rejection of the treaty by the European Parliament – which is due to debate its ratification in the autumn – in protest at Turkey's human rights record, would be a terrible setback for the government and therefore bad for the market.

This is why analysts always qualify their forecasts with caveats familiar to emerging market specialists.

One US market-watcher said "the market is going too fast. The danger is that there is no real rationale. People just buy numbers, its pure speculation." His advice? For the time being, buy but be ready to sprint for the exits.

Mexico's market on the mend

Leslie Crawford in Mexico City

The Mexican stock market is beginning to emerge from the wreckage of December's devaluation as confidence in the government's new economic programme takes hold.

Equities have made steady gains since Mr Guillermo Ortiz, the finance minister, announced an emergency plan on March 9 to stabilise the country's financial markets.

The measures included a 10 per cent cut in government spending, increases in value added tax and public tariffs for electricity and petrol, and measures to support Mexico's shaky banking system.

Since then, the Mexican currency has stabilised at about 6.4 pesos to the dollar, against 7 pesos at the height of the financial crisis, while the IPC stock market index has recovered more than 20 per cent of its value. With the depreciation of the peso, however, share prices in dollar terms are still 36 per cent lower than at the beginning of the year.

Nevertheless, investors have taken courage from the stock market rally, now in its fourth consecutive week. A spate of encouraging figures, including a rapid improvement in the government's fiscal accounts and a foreign trade balance which in February moved into surplus, have begun to reassure investors that the worst of the crisis may be over.

News round-up

■ Debt funds

The performance of emerging market debt funds as tracked by Micropal has been particularly poor over tha past 12 months. The average performance of 33 global emerging market debt funds on a one year time span has been minus 13.4 per cent, with Latin American debt markets being the worst performers over that same period, down 26 per cent.

Micropal notes that Brazil and Argentina are the two most favoured countries among 39 emerging market debt fund managers. With combined net assets under management of $6.3bn, just over $1.3bn was invested in Brazil, while some $777m was invested in Argentinian instruments.

■ Russia

The EBRD has approved a $1.5m contribution for the development of a Russian share register, something which could remove a difficulty in efforts towards creating a credible equity market.

The registry, under a technical services agreement with the Bank of New York, will provide large Russian enterprises with an independent share registration service which will meet the requirements of both local and international investors. The Russian Registry Company will be based in Moscow and is expected to establish up to 20 locations throughout the country.

● The French Commission des Operations de Bourse is expected to sign an agreement with the Russian authorities to develop the latter's equity market.

■ Jakarta

Ernst & Young International, the international accounting and financial advisory firm, is to audit the stock market's new computerised system which is due to start on April 24. The Jakarta stock market has postponed the computerised trading system several times in the past due to technical and other problems. Trading is still done manually at present.

● *Edited by John Pitt. Further coverage of emerging markets appears daily on the World Stock Markets page.*

Baring Securities emerging markets indices

Index	7/4/95	Week on week movement Actual	Week on week movement Percent	Month on month movement Actual	Month on month movement Percent	Year to date movement Actual	Year to date movement Percent
World (353)	137.09	+3.19	+2.38	+12.50	+10.03	-20.94	-13.25
Latin America							
Argentina (23)	78.52	+0.18	+0.23	+20.31	+34.89	-7.59	-8.81
Brazil (23)	152.79	+3.85	+2.58	+14.36	+10.37	-56.59	-27.03
Chile (13)	206.31	+10.68	+5.46	+28.35	+15.93	-5.26	-2.49
Mexico (25)	64.60	+4.79	+8.01	+14.35	+28.57	-33.03	-33.83
Peru(18)	817.33	+116.72	+16.66	+197.23	+31.81	-31.34	-3.69
Latin America (100)	106.95	+4.80	+4.70	+18.02	+20.26	-31.82	-22.93
Europe							
Greece (18)	91.56	-1.48	-1.59	+2.79	+3.14	+4.57	+5.25
Portugal (23)	127.20	-0.08	-0.06	+5.16	+4.23	+10.92	+9.39
Turkey (22)	115.29	+15.00	+14.95	+34.85	+43.33	+39.18	+51.48
Europe (96)	114.29	+3.47	+3.13	+12.67	+12.47	+16.80	+16.99
Asia							
Indonesia (28)	123.19	+0.40	+0.33	-5.14	-4.01	-10.49	-7.85
Korea (24)	135.06	-1.42	-1.04	+3.81	+2.91	-4.82	-3.45
Malaysia (22)	215.04	-2.22	-1.02	+5.89	+2.82	+4.19	+1.99
Pakistan (15)	87.31	+6.03	+7.42	-6.03	-6.46	-18.89	-17.79
Philippines (12)	243.77	+7.52	+3.18	+2.99	+1.24	-38.36	-13.60
Thailand (24)	229.70	-3.86	-1.65	-5.72	-2.43	-21.94	-8.72
Taiwan (32)	189.94	+1.80	+1.07	+1.77	+1.05	-14.21	-7.72
Asia (157)	200.51	-0.46	-0.23	+1.61	+0.81	-10.10	-4.80

All indices in $ terms, January 7th 1992=100. Source: Baring Securities

CURRENCIES

Philip Gawith

Markets continue dollar vigil

Market sentiment towards the dollar remains very pessimistic. Increasingly, though, investors and traders are beginning to wonder whether the US currency might be nearing a bottom.

Trying to call this turn is currently the major preoccupation on the foreign exchanges. More than ever, it means paying attention to the pronouncements of bankers and politicians across the globe.

Foremost in the market's mind will be whather, as widely anticipated, the Bank of Japan decides to cut the official discount rate. This should provide some support for the dollar, but it is unlikely to reverse its decline, which reflects deeper structural problems than short-term interest rate differentials.

Standing in the way of any bounce in the dollar, however, are at least two problems.

The first is the belief in the market that US authorities, if not actively willing a weaker currency, are largely indifferent to it.

And the second is the view that the dollar is weak because of fundamental problems. To address these requires political will; it is beyond the purview of monetary policy and central bankers, who can really only offer palliatives.

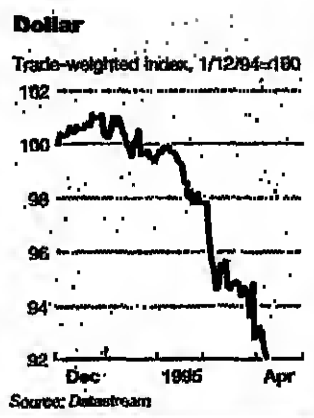
A spell of range-trading may well be in store for the US currency.

On the one hand, the market is not so short that there can't be further dollar selling. On the other, the prospect of central bank support is preventing investors from selling the dollar aggressively.

Aiding this tendency towards drift is the fact that many of the world's politicians are preparing for an Easter recess, although whether this serves as an incentive to currency speculators is another matter.

In terms of US data releases, the week ahead is a heavy one: consumer and producer inflation, retail sales and industrial production. But their implications for the dollar appear limited since it is not responding to moves in short-term interest rates.

The market is left waiting for the unexpected event which can help turn sentiment in the US currency's favour.



Source: Datastream

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, April 7, 1995. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	5564.40	3463.09	2507.44	4115.06
Albania	(Lek)	161.467	100.490	72.7609	119.411
Algeria	(Dinar)	69.7030	43.3800	31.4096	51.5478
Andorra	(French Fr)	7.7172	4.8029	3.4776	5.7072
	(Sp Peseta)	199.444	124.125	89.8740	147.496
Angola	(New Kwanza)	988577.3	615246.0	445475.3	731068.7
Antigua	(E Carr $)	4.3384	2.7000	1.9550	3.2084
Argentina	(Peso)	1.6061	0.9996	0.7238	1.1878
Armenia	(Dram)	642.720o	400.000	289.624	475.313
Aruba	(Florin)	2.8762	1.7900	1.2961	2.1270
Australia	(Aus $)	2.1674	1.3489	0.9766	1.6028
Austria	(Schilling)	15.6183	9.7201	7.0379	11.5502
Azerbaijan	(Manat)	7029.14o	4374.00	3167.04	5197.55
Azores	(Port Escudo)	234.352	145.850	105.604	173.311
Bahamas	(Bahama $)	1.6068	1	0.7241	1.1883
Bahrain	(Dinar)	0.6058	0.3770	0.2730	0.4480
Balearic Is	(Sp Peseta)	199.444	124.125	89.8740	147.496
Bangladesh	(Taka)	63.8703	39.7500	28.7814	47.2343
Barbados	(Barb $)	3.2318	2.0113	1.4563	2.3900
Belarus	(Rouble)	18478.2o	11500.0	8326.70	13665.3
Belgium	(Belg Fr)	45.6051	28.3825	20.5506	33.7265
Belize	(B $)	3.2136	2.0000	1.4481	2.3766
Benin	(CFA Fr)	771.720	480.290	347.759	570.721
Bermuda	(Bermudian $)	1.6068	1	0.7241	1.1883
Bhutan	(Ngultrum)	50.4616	31.4050	22.7391	37.3180
Bolivia	(Boliviano)	7.6644	4.7700	3.4538	5.6681
Botswana	(Pula)	4.3628	2.7152	1.9660	3.2264
Brazil	(Real)	1.4437	0.8985	0.6506	1.0677
Brunei	(Brunei $)	2.2557	1.4038	1.0164	1.6681
Bulgaria	(Lev)	105.867	65.8870	47.7062	78.2924
Burkino Faso	(CFA Fr)	771.720	480.290	347.759	570.721
Burma	(Kyat)	8.6075	5.3569	3.8787	6.3655
Burundi	(Burundi Fr)	371.171	231.000	167.258	274.494
Cambodia	(Riel)	3695.64	2300.00	1665.34	2733.05
Cameroon	(CFA Fr)	771.720	480.290	347.759	570.721
Canada	(Canadian $)	2.2357	1.3914	1.0075	1.6534
Canary Is	(Sp Peseta)	199.444	124.125	89.8740	147.496
Cp. Verde	(CV Escudo)	133.316	82.9700	60.0753	98.5919
Cayman Is	(CI $)	1.3306	0.8282	0.5997	0.9841
Cent. Afr. Rep	(CFA Fr)	771.720	480.290	347.759	570.721
Chad	(CFA Fr)	771.720	480.290	347.759	570.721
Chile	(Chilean Peso)	634.768	395.050	286.040	469.431
China	(Yuan)	13.5375	8.4251	6.1003	10.0114
Colombia	(Col Peso)	1396.79	869.300	629.425	1032.97
Comoros	(Fr)	578.942	359.063	259.963	426.663
Congo	(Brazz) (CFA Fr)	771.720	480.290	347.759	570.721
Costa Rica	(Colon)	277.527	172.720	125.060	205.240
Côte d'Ivoire	(CFA Fr)	771.720	480.290	347.759	570.721
Croatia	(Kuna)	8.0202	4.9914	3.6141	5.9312
Cuba	(Cuban Peso)	1.6068	1	0.7241	1.1883
Cyprus	(Cyprus £)	0.7060	0.4394	0.3182	0.5221
Czech Rep.	(Koruna)	41.4672	25.8080	18.6866	30.6666
Denmark	(Danish Krone)	8.7318	5.4343	3.9348	6.4575
Djibouti Rep	(Djib Fr)	285.561	177.720	128.680	211.182
Dominica	(E Carib $)	4.3384	2.7000	1.9550	3.2084
Dominican Rep	(D Peso)	22.0614	13.7300	9.9414	16.3151
Ecuador	(Sucre)	3882.03o	2418.89	1749.32	2870.69
	(Sucre)	3881.23s	2415.50	1748.97	2870.30
Egypt	(Egyptian £)	5.4869	3.4148	2.4725	4.0577
El Salvador	(Colon)	14.0595	8.7500	6.3355	10.3975
Equat'l Guinea	(CFA Fr)	771.720	480.290	347.759	570.721
Estonia	(Kroon)	17.7070	11.0200	7.9792	13.0949
Ethiopia	(Ethiopian Birr)	9.3195	5.8000	4.1996	6.8927
Falkland Is	(Falk £)	1	0.6224	0.4598	0.7385
Faroe Is	(Danish Krone)	8.7318	5.4349	3.9348	6.4575
Fiji Is	(Fiji $)	2.2201	1.3817	1.0004	1.6418
Finland	(Markka)	6.8337	4.2530	3.0794	5.0538
France	(Fr)	7.7172	4.8029	3.4776	5.7072
Fr. Cty/Africa	(CFA Fr)	771.720	480.290	347.759	570.721
Fr. Guiana	(Local Fr)	7.7172	4.8029	3.4776	5.7072
Fr. Pacific Is	(CFP Fr)	139.865	87.0454	63.0261	103.435
Gabon	(CFA Fr)	771.720	480.290	347.759	570.721
Gambia	(Dalasi)	15.3450	9.5500	6.9149	11.3481

		£ STG	US $	D-MARK	YEN (X 100)
Germany	(D-Mark)	2.2191	1.3811	1	1.6411
Ghana	(Cedi)	1775.51	1105.00	800.087	1313.05
Gibraltar	(Gib £)	1	0.6224	0.4506	0.7395
Greece	(Drachma)	361.209	224.800	162.769	267.126
Greenland	(Danish Krone)	8.7318	5.4343	3.9348	6.4575
Grenada	(E Carr $)	4.3384	2.7000	1.9550	3.2084
Guadeloupe	(Local Fr)	7.7172	4.8029	3.4776	5.7072
Guam	(US $)	1.6068	1	0.7241	1.1883
Guatemala	(Quetzal)	9.2116	5.7329	4.1510	6.8123
Guinea	(Fr)	1630.16	1014.54	734.588	1205.58
Guinea-Bissau	(Peso)	24894.9	15369.0	11128.1	18262.7
Guyana	(Guyanese $)	229.451	142.800	103.399	169.687
Haiti	(Gourde)	30.5292	19.0000	13.7572	22.5774
Honduras	(Lempira)	14.4612	9.0000	6.5166	10.6946
Hong Kong	(HK $)	12.4243	7.7323	5.5987	9.1882
Hungary	(Forint)	189.811	110.130	85.5333	140.372
Iceland	(Icelandic Krona)	101.100	62.9200	45.5579	74.7668
India	(Indian Rupee)	50.4616	31.4050	22.7391	37.3180
Indonesia	(Rupiah)	3584.77	2231.00	1615.38	2651.06
Iran	(Rial)	2807.88	1747.50	1265.30	2076.53
Iraq	(Iraqi Dinar)	0.9641	0.6000	0.4344	0.7130
Irish Rep	(Punt)	0.9942	0.6187	0.4480	0.7352
Israel	(Shekel)	4.7444	2.9527	2.1379	3.5086
Italy	(Lira)	2734.02	1701.53	1232.01	2021.90
Jamaica	(Jamaican $)	52.2210	32.5000	23.5320	38.6192
Japan	(Yen)	135.220	84.1550	60.9333	100
Jordan	(Jordanian Dinar)	1.1015	0.6855	0.4963	0.8148
Kenya	(Kenya Shilling)	70.0565	43.6000	31.5690	51.8082
Kiribati	(Australian $)	2.1674	1.3488	0.9766	1.6028
Korea North	(Won)	3.4546	2.1500	1.5567	2.5548
Korea South	(Won)	1236.11	769.300	557.020	914.147
Kuwait	(Kuwaiti Dinar)	0.4592	0.2860	0.2114	0.3470
Laos	(New Kip)	1171.38	729.000	527.840	866.259
Latvia	(Lats)	0.8146	0.5070	0.3671	0.6024
Lebanon	(Lebanese £)	2624.71	1633.50	1182.75	1941.06
Lesotho	(Maluti)	5.7685	3.5901	2.5994	4.2661
Liberia	(Liberian $)	1.6068	1	0.7241	1.1883
Libya	(Libyan Dinar)	0.5778	0.3596	0.2604	0.4273
Liechtenstein	(Swiss Fr)	1.8222	1.1340	0.8211	1.3475
Lithuania	(Litas)	6.4272	4.0000	2.8962	4.7531
Luxembourg	(Lux Fr)	45.6051	28.3825	20.5506	33.7265
Macao	(Pataca)	12.8343	7.9875	5.7834	9.4914
Madagascar	(MG Fr)	6146.01	3825.00	2769.53	4545.16
Madeira	(Port Escudo)	234.352	145.850	105.604	173.311
Malawi	(Kwacha)	24.8251	15.4500	11.1867	18.3590
Malaysia	(Ringgit)	4.0062	2.4933	1.8053	2.9627
Maldive Is	(Rufiya)	18.9121	11.7700	8.5222	13.9861
Mali Rep	(CFA Fr)	771.720	480.290	347.759	570.721
Malta	(Maltese Lira)	0.5544	0.3450	0.2498	0.4100
Martinique	(Local Fr)	7.7172	4.8029	3.4776	5.7072
Mauritania	(Ouguiya)	203.823	126.850	91.8471	150.734
Mauritius	(Maur Rupee)	27.4442	17.0800	12.3670	20.2959
Mexico	(Mexican Peso)	10.2273	6.3650	4.6086	7.5634
Miquelon	(Local Fr)	7.7172	4.8029	3.4776	5.7072
Moldova	(Leu)	7.1161	4.4300	3.2076	5.2641
Monaco	(French Fr)	7.7172	4.8029	3.4776	5.7072
Mongolia	(Tugrik)	667.738	415.570	300.896	493.815
Montserrat	(E Carr $)	4.3384	2.7000	1.9550	3.2084
Morocco	(Dirham)	13.2029	8.2729	5.9901	9.8305
Mozambique	(Metical)	11789.7	7337.35	5312.69	8718.85
Namibia	(S A Rand)	5.7685	3.5901	2.5994	4.2661
Nauru Is	(Australian $)	2.1674	1.3488	0.9766	1.6028
Nepal	(Nepalese Rupee)	79.3759	49.4000	35.7686	58.7012
Netherlands	(Guilder)	2.4841	1.5460	1.1194	1.8371
N'nd Antilles	(A/Guilder)	2.8762	1.7900	1.2961	2.1270
New Zealand	(NZ $)	2.4221	1.5074	1.0914	1.7919
Nicaragua	(Gold Cordoba)	11.7727	7.3268	5.3051	8.7063
Niger Rep	(CFA Fr)	771.720	480.290	347.759	570.721
Nigeria	(Naira)	35.3496o	22.0000	15.9293	26.1422
	(Naira)	130.794m	81.4000	58.9385	96.7283
Norway	(Nor. Krone)	9.9549	6.1955	4.4859	7.3620
Oman	(Rial Omani)	0.6187	0.3850	0.2788	0.4575

		£ STG	US $	D-MARK	YEN (X 100)
Pakistan	(Pak. Rupee)	49.5684	30.8491	22.3368	36.6575
Panama	(Balboa)	1.6068	1	0.7241	1.1883
Papua New Guinea	(Kina)	1.9547	1.2165	0.8808	1.4456
Paraguay	(Guarani)	3157.36	1965.00	1422.78	2334.98
Peru	(New Sol)	3.6418	2.2665	1.6411	2.6932
Philippines	(Peso)	41.2693	26.0700	18.8763	30.9786
Pitcairn Is	(£ Sterling)	1	0.6224	0.4506	0.7395
	(NZ $)	2.4221	1.5074	1.0914	1.7912
Poland	(Zloty)	3.7528	2.3356	1.6910	2.7752
Portugal	(Escudo)	234.352	145.850	105.604	173.311
Puerto Rico	(US $)	1.6068	1	0.7241	1.1883
Qatar	(Riyal)	5.8485	3.6399	2.6355	4.3252
Reunion Is. de la	(F/Fr)	7.7172	4.8029	3.4776	5.7072
Romania	(Leu)	2980.25	1861.00	1347.48	2211.40
Russia ‡	(Rouble)	1.0422o	0.6486	0.4696	0.7707
	(Rouble)	7372.14m	4581.50	3692.43	5895.67
Rwanda	(Fr)	385.552(2)	239.950	173.738	285.129
St Christopher	(E Carr $)	4.3384	2.7000	1.9550	3.2084
St Helena	(£)	1	0.6224	0.4506	0.7395
St Lucia	(E Carr $)	4.3384	2.7000	1.9550	3.2084
St Pierre	(French Fr)	7.7172	4.8029	3.4776	5.7072
St Vincent	(E Carr $)	4.3384	2.7000	1.9550	3.2084
San Marino	(Italian Lira)	2734.02	1701.53	1232.01	2021.90
Sao Tome	(Dobra)	2587.03	1610.05	1165.77	1913.20
Saudi Arabia	(Riyal)	6.0264	3.7506	2.7157	4.4568
Senegal	(CFA Fr)	771.720	480.290	347.759	570.721
Seychelles	(Rupee)	7.3963	4.6050	3.3343	5.4721
Sierra Leone	(Leone)	856.046	585.000	430.818	707.029
Singapore	($)	2.2557	1.4038	1.0164	1.6681
Slovakia	(Koruna)	46.5072	28.9440	20.9572	34.3937
Slovenia	(Tolar)	179.994	112.020	81.1083	133.112
Solomon Is	($)	5.3275	3.3156	2.4007	3.9399
Somali Rep	(Shilling)	4209.82	2620.00	1897.04	3113.30
South Africa	(Rand)	5.7685	3.5901	2.5994	4.2661
Spain	(Peseta)	199.444	124.125	89.8740	147.496
Spanish Ports in N Africa	(Sp Peseta)	199.444	124.125	89.8740	147.496
Sri Lanka	(Rupee)	79.1028	49.2300	35.6456	58.4992
Sudan Rep	(Dinar)	66.9363	41.6600	30.1644	49.5038
Surinam	(Guilder)	673.249	419.000	303.381	497.891
Swaziland	(Lilangeni)	5.7686	3.5901	2.5994	4.2661
Sweden	(Krona)	11.7996	7.3436	5.3171	8.7262
Switzerland	(Fr)	1.8222	1.1340	0.8211	1.3475
Syria	(£)	67.4856	42.0000	30.4105	49.9079
Taiwan	($)	41.2655	25.6818	18.5952	30.5173
Tanzania	(Shilling)	886.954	552.000	399.681	655.933
Thailand	(Baht)	39.4951	24.5800	17.7974	29.2080
Togo Rep	(CFA Fr)	771.720	480.290	347.759	570.721
Tonga Is	(Pa'anga)	2.1674	1.3488	0.9766	1.6028
Trinidad/Tobago	($)	9.1607	5.6960	4.1235	6.7673
Tunisia	(Dinar)	1.4833	0.9231	0.6684	1.0969
Turkey	(Lira)	67541.9	42035.0	30435.9	49948.5
Turks & Caicos	(US $)	1.6068	1	0.7241	1.1883
Tuvalu	(Australian $)	2.1674	1.3488	0.9766	1.6028
Uganda	(New Shilling)	1483.08	923.000	668.308	1096.79
Ukraine	(Karbovanets)	208112.7	129520.0	93780.3	153908.6
U A E	(Dirham)	5.9018	3.6729	2.6594	4.3644
United Kingdom	(£)	1	0.6224	0.4506	0.7395
United States	(US $)	1.6068	1	0.7241	1.1883
Uruguay	(Peso Uruguayo)	9.5289	5.9300	4.2937	7.0465
Vanuatu	(Vatu)	177.069	110.200	79.7915	130.949
Vatican	(Lira)	2734.02	1701.53	1232.01	2021.90
Venezuela	(Bolivar)	272.811	169.785	122.936	201.753
Vietnam	(Dong)	18017.0	11213.0	8118.89	13324.2
Virgin Is-British	(US $)	1.6068	1	0.7241	1.1883
Virgin Is-US	(US $)	1.6068	1	0.7241	1.1883
Western Samoa	(Tala)	3.9835	2.4867	1.7860	2.9312
Yemen (Rep of)	(Rial)	80.3400o	50.0000	36.2030	59.4142
Yemen (Rep of)	(Rial)	224.952r	140.000	101.369	166.360
Yugoslavia	(New Dinar) (1)	-	-	-	-
Zaire Rep	(Zaire)	5910.61	3678.50	2663.46	4371.10
Zambia	(Kwacha)	1282.42	798.120	577.887	948.393
Zimbabwe	($)	13.6558	8.4988	6.1536	10.0989

Special Drawing Rights April 6, 1995 Utd Kingdom £0.977713 Utd States $1.57138 Germany DM2.16850 Japan Y136.296 European Currency Unit Rates April 7, 1995 Utd Kingdom £0.837176 Utd States $1.34576 Germany DM1.85848 Japan Y113.380

Abbreviations: (o) Free rate; (m) Market rate; (c) Official rate; (t) Parallel rate (l) Tourist rate (u) Currency fixed against the US Dollar (v) Floating rate : ‡ Russia applies to states in the Rouble Zone. (1) Yugoslav Dinar rate n/a. (2) Rwandan rate devalued. Some data derived from THE WM/REUTERS CLOSING SPOT RATES & Bank of America, Economics Department, London Trading Centre. Enquiries: 0171 634 4360/5.
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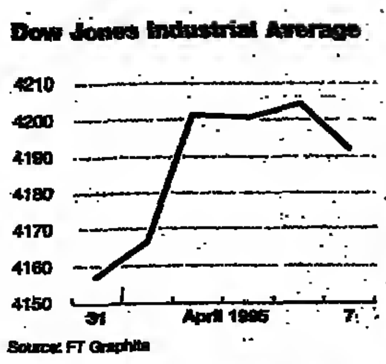
Friday, April 7, 1995

EQUITY MARKETS: This Week

NEW YORK — Lisa Bransten

Results should confirm the soft landing



Source: FT Graphite

For weeks, investors have made their stock market wagers based on assumptions about the possibility of a soft landing and the effect such a development might have on corporate profits. This week, at last, there will be some hard numbers to put behind all the speculation as companies begin to report earnings.

Economic data released since the start of the year point to a relatively strong first quarter, with the impact of last year's interest rate increases to be felt later this year. Analysts mostly expect earnings reports to bolster the market with good news.

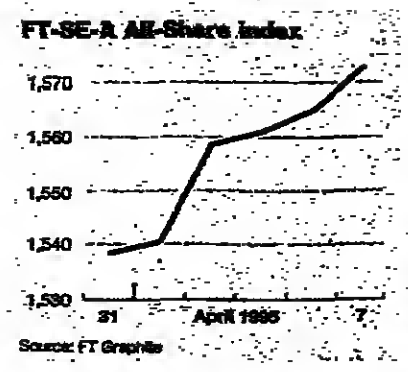
This week will also see a spate of economic data. Figures on capacity utilisation and industrial production are expected to add to the growing conventional wisdom that holds that the economy is slowing.

Economists believe March capacity utilisation will decline to 85.5 per cent from 85.7 per cent in February and that industrial production will have declined by 0.1 per cent after growing by 0.5 per cent in February.

Other figures will be the March producer price index, to be released tomorrow, and the consumer price index, due on Wednesday. Economists predict that producer prices will have risen by 0.2 per cent overall and by 0.3 per cent excluding the volatile food and energy components. On the consumer front, economists believe price increases will have grown by 0.3 per cent in March, as they did in February.

LONDON — Terry Byland

Banking on G3 action to lift the dollar



Source: FT Graphite

There is not much sign that the "problems" of the dollar are holding back the international equities which provide the driving forces behind the leading indices across global stock markets. Oil shares, with sales prices pinned in dollars, have been leading the charge and the FT-SE 100 Share list showed a total return of 3.8 per cent over the first three months of the year, outperforming most global markets, although not Wall Street.

However, the biggest rises in the Footsie have come when markets thought that the G3 countries, Japan, Germany and the US, were planning serious action on the dollar.

Some form of such action seems to be in the wind this week. If nothing happens on this front, then the UK stock market would be "running brave" if it tried to make further progress, says Derivative Securities, the futures Specialist.

But the FT-SE Mid 250 stocks continue to under-perform significantly – the Index inflicted a small minus return on investors over the March quarter, and continued to lag behind the Footsie 100 last week.

Trading volumes in the non-Footsie stocks have shown signs of improvement, rising to around 60 per cent of daily Seaq totals on some days.

If the G3 countries plan serious action on the dollar, then the Footsie stocks can hardly fail to benefit. But the FT-SE Mid 250 seems the best two-way bet.

Global share offers

Conditions ripe for sharp expansion in M&A deals

The graveyard of international equity offerings may be growing by the week but investment bankers have no time to mourn. They are too busy advising clients on alternative ways to raise capital.

It is at times like these that the big integrated investment banks come into their own. Now that one source of funding has dried up, in this case, the stock markets, they quickly switch attention to finding private buyers for assets that companies want to sell off. "The mergers and acquisitions team is certainly getting more air-time these days," says one equity syndicate manager at a Swiss bank.

Figures supplied by IFR Securities Data show that the volume of M&A deals has increased at a startling pace since the middle of last year.

In the second quarter of 1994, the volume of completed M&A deals worldwide stood at $99bn but grew to $146.6bn by the last quarter of the year.

M&A activity remained at this level in the first quarter of this year and is expected to remain buoyant during the next three months.

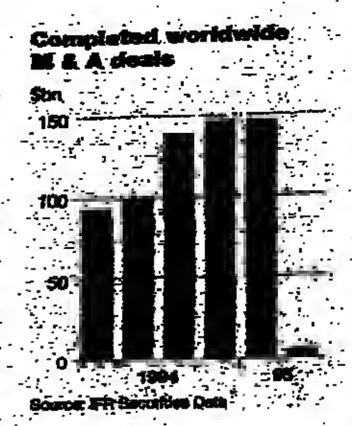
The sorry state of the stock markets and the poor performance of several new equity issues may have turned off international investors, but they have created a favourable environment for companies looking to expand through acquisitions.

"This is the January sale for companies and there are bargains to be had," says a banker at a US house.

With markets setting such a low price on shares, companies wanting to sell would probably do better looking for a trade buyer.

A strategic buyer would be prepared to pay a premium over the public market price because of industrial benefits the purchase would produce. This logic does not apply to a fund manager whose priority is to outperform the market.

There have been several headline-grabbing M&A transactions in recent months, Glaxo's takeover of Wellcome, Hoechst's purchase of Marion Merrell Dow and Cadbury Schweppes' takeover of the Dr Pepper/7-Up companies to name a few.



Source: IFR Securities Data

Most M&A deals have been confined to certain sectors but bankers expect the activity to broaden, especially if the current state of primary equity markets persists. Many European companies have plenty of cash, their gearing is relatively low and banks are falling over themselves to lend.

However, some companies are still concentrating on restructuring themselves, Royal Dutch/Shell for example, in order to improve internal productivity.

Others, especially those in the cyclical industries, may lack the confidence to embark on a large acquisition because of concerns that economic growth in Europe may start to slow.

Yet there are several precedents to show that one company's proposed flotation can quickly turn into a full-blown takeover. After all, the idea of selling out, possibly at a small premium to the market price, could be rather tempting to owners of a company who would rather not have to deal with minority shareholders.

Take, for example, the news last month that Pearson Television, part of the Pearson group which owns the Financial Times, was buying Grundy Worldwide, the independent television production company, for US$279m cash. The deal was struck only two weeks after Grundy announced plans to float 35 per cent of its shares in Australia and New York.

Other offerings resulting in a private sale include Clark Equipment's disposal of its interest in VME, one of the world's largest construction and earthmoving equipment makers, to its Swedish partner, Volvo, and Elf Aquitaine's sale of its Texasgulf phosphates business to the Potash Corporation of Saskatchewan.

In view of the heavy calendar of equity offerings this year, bankers believe it is likely some will end up as private sales unless a better tone returns to the primary market. This means some of the more appetising offerings could be snatched from under the noses of international investors.

If this happens, fund managers will only have themselves to blame. After all, their rather hysterical reaction to signs that the steel industry's cycle was about to turn effectively scuppered the sale of shares in Böhler-Uddeholm, the Austrian speciality steel maker. This further undermined confidence in the primary market, which prompted Hoechst to shelve plans to reduce its holding in its subsidiary, SGL Carbon.

Hoechst came in for some criticism because the SGL shares sold by the company itself to raise new capital and by Péchiney, the French packaging and metals group, were priced within the price range. Therefore, the market assumed Hoechst was a seller, even at the bottom of the range.

But Hoechst did what its shareholders would have expected – it refused to sell off an asset too cheaply. "We know the company and we know what it's worth," says Mr Robert Koehler, SGL chief executive and former head of corporate planning at Hoechst.

It remains to be seen how long the gulf between sellers and the public market will persist but until it narrows, conditions are ripe for M&A. In view of the large privatisation programmes in the pipeline, however, bankers are praying sentiment in the equity primary market improves soon, as it is unlikely trade buyers will emerge on such a grand scale.

Antonia Sharpe

OTHER MARKETS

ZURICH

UBS faces some tough questioning when it meets financial analysts on Wednesday, many of whom believe the bank has been stumbling wrong-footed in the long-running row over governance with Mr Martin Ebner's BK Vision, the investment company that is UBS's largest shareholder.

In the latest twist last week, BK Vision filed criminal charges against UBS directors, alleging that the bank's purchases of its own shares during last autumn's proxy battle had damaged the bank. UBS dismissed the allegations as entirely without substance.

In Zurich, meanwhile, Bank Julius Baer forecast last week that Swiss shares would fall by a further 5 to 10 per cent following the 6 per cent drop already recorded since the start of this year.

Baer's latest investment report said that the fall so far this year does not take sufficient account of the harm that the Swiss franc's strength is doing to the corporate profit outlook.

The bank estimated that if exchange rates held at current levels until the end of 1995, companies would suffer currency losses of about 8 per cent. Even if the franc weakened a little later in the year, there would still be substantial exchange rate losses, compared with average values in recent years.

Baer removed Sulzer registered shares and Holderbank bearers from its buy list because both companies have been strongly affected by the currency crisis, and said that its favourite stocks are heavily capitalised financials such as UBS, SBC and Swiss Re.

PARIS

A busy week for corporate results is in prospect, in spite of the Good Friday holiday. Michelin and Pechiney report tomorrow, L'Oréal on Wednesday and Havas on Thursday.

UBS forecasts a FFr1.17bn profit from Michelin, with the improvement largely the result of an increase in sales volumes.

The bank notes that investors are now focusing on prices which are expected to increase significantly, especially in the original equipment market, to promote a more favourable mix between it and the highly-priced replacement market.

MADRID

The issue price for the current privatisation of almost half of the government's 40.5 per cent stake in Repsol will be set today and is expected to be around Pta3,585, the maximum price already fixed. Last week, the government denied press reports that it planned to sell a further 16 per cent stake in the petroleum company.

ABN-Amro Hoare Govett notes that the market disappointed in the first quarter as a result of dollar weakness and political uncertainty which led to a depreciation, and devaluation, of the peseta and a rise in long-term interest rates.

While these negative factors could persist in the short term, the recovery looks set to be more robust than in other European economies and the firm line taken by the Bank of Spain should ensure that inflation does not rise too far, even after devaluation.

ABN says that standard valuation criteria suggest that the market is cheap and it has raised its weighting of Spanish stocks in a European portfolio. Its year-end target for the general index is 300, compared with 275 on Friday. The bank adds that political uncertainty has continued to heighten with the appearance of new corruption cases.

While Prime Minister Felipe Gonzales has repeatedly stated that he will not call early elections, he could be prompted to do so by a sound beating of his PSOE socialist party in the regional and local elections next month, or if revelations of corruption escalate.

AMSTERDAM

Nedlloyd, the Dutch transport group, publishes its 1994 figures on Thursday and expectations are that, due to the impact of restructuring measures, operating profit will have risen, *writes John Pitt.*

Analysts believe that even with lower sales, the profit could climb from 1993's Fl 39m to some Fl 160m. Furthermore, lower interest-bearing debt charges will be significantly lower than in 1993, while an absence of extraordinary items should leave net profit in the black, against a loss of Fl 112m in 1993.

MILAN

Another subdued week is in prospect in the run-up to Easter and the regional elections on April 23.

Kleinwort Benson says the political situation has deteriorated to such an extent that investors are avoiding the market altogether. The approval of pension reforms after the local elections could trigger a short-term rally, but thereafter, the uncertain political situation is likely to dominate until general elections are held, probably in the autumn.

TOKYO

Investors are focused on whether the government's emergency package, due this week, will be able to stop the yen's continued rise, *writes Emiko Terazono.*

Although additional fiscal response from the government to help the economy, which will soon feel the effects of the yen's appreciation, is eagerly awaited, there is a danger that the measures will be aimed at providing long-term support rather than boosting investor confidence. If the emergency package contains the usual menu of labour market support measures and tax breaks for capital spending, it could aggravate "the sense of crisis and policy impotence", says Barclays de Zoete Wedd in Tokyo.

Compiled by Michael Morgan

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FINANCIAL TIMES SURVEY

BURGUNDY

■ Politics: punching above its weight
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Monday April 10 1995

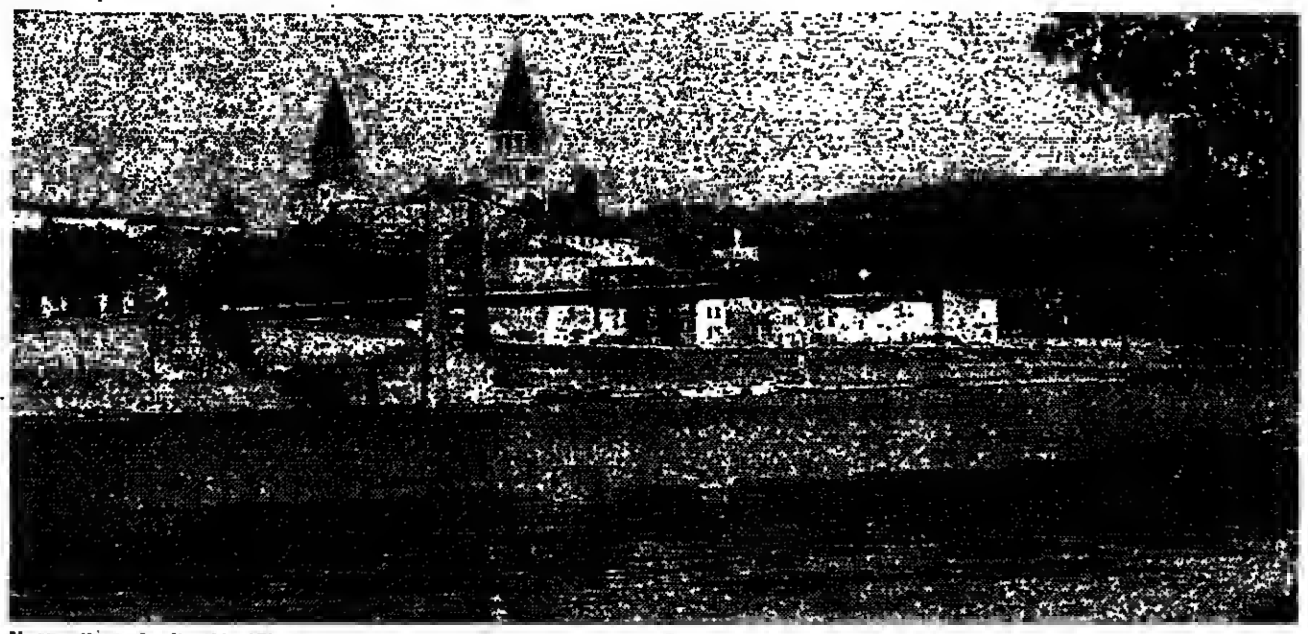
Attractive though it might have seemed, Burgundy has resisted the temptation to rest on its traditions of wine, cuisine and culture. The region, tucked between France's most important business centres – Paris and Lyons – is striving to develop new sources of growth and investment while seeking to bind itself ever more firmly to a communications and transport hub at the centre of some of Europe's busiest routes.

"We are not seeking to shed our traditional image, but to develop new areas of strength," says Mr Jean-François Bazin, head of the Burgundy regional council and one of the driving forces behind Vallée d'Image, a project to promote industries and activities ranging from photography to electronics and multimedia. Other poles of development inclnde packaging, plastics, logistics, agro-industry and automotives.

The region already has a divereified economic and industrial base. Despite the strength of its image in wine and culture, Burgundy was one of France's first metalworking centres, partly because of its resources of wood fuel and minerals. The wine sector, while vital to the economy, ranks only fifth or sixth in terms of employment and output in the region. Three times as much land is used for vegetable oil production as for vineyards.

Such diversity has been a source of strength over the past few years. "It is one of the reasons why the recession hit Burgundy less hard than other areas of France," says Prof Jacky Perreur, director of the regional economic institute at Dijon University. This helped Burgundy overcome the recent crisis in the wine industry, which saw prices fall by more than 20 per cent for some producers between 1991 and 1993. A recovery since the second half of last year has provided a much-needed boost to the sector.

There have been other setbacks. The 1984 bankruptcy of Le Creusot, the metals, arms and foundry giant, dealt a serious blow to the surrounding area in the Saône et Loire. The 1992 decision by Maytag of the US to transfer its Hoover operations from Dijon to Scotland affected fewer jobs, about 650 in total, but had an important psychological effect.



Nevers, the main city of La Nièvre

Dates of destiny

1	AD 561	Birth of Kingdom of Burgundy, covering a large swathe of what is now eastern France.
2	771	Kingdom annexed by Charlemagne.
3	End of ninth century	Richard le Justicier establishes the Duchy of Burgundy.
4	1031	Robert the First, Duke of Burgundy, founds the Capetian house of Burgundy.
5	1352	Foundation of parliament of Burgundy.
6	1361	Death of Philip de Rouvres, last Capetian Duke. Duchy passes to Kingdom of France. Start of Valois house of Burgundy.
7	1407	Jean Sans Peur, (John the Fearless) Duke of Burgundy, launches fight for political independence of Burgundy.
8	1419	Philippe le Bon (Philip the Good) becomes duke of Burgundy. Through inheritance and acquisition he extends the duchy to cover Belgium, Holland, Luxembourg and Lorraine. Killed in 1477 at siege of Nancy.
9	1482	Duchy returns definitively to French kingdom.
10	1592	End of Spanish invasion as part of Wars of Religion
11	1789	French Revolution. Creation of four departments. Côte d'Or, Yonne, Saône et Loire, and La Nièvre.
12	Nineteenth century	Industrial revolution creates industrial centres at Dijon, Chalon sur Saône. Le Creusot becomes one of Europe's major metallurgy centres.
13	1959	Creation of region combining the four departments.

A bit of mustard for the regional recipe

Rather than rest on its laurels, the region is garnering its forces to seek new sources of growth and to capitalise on its strategic position while improving co-ordination, writes John Ridding

More broadly, there has been a feeling that co-ordination and dynamism have been lacking. "There have relatively few areas of rapid growth," says Mr Yves Grenot, director of the Dijon operations of Lyonnaise de Banque and the head of the local banking federation.

There is now a sense, however, that Burgundy is garnering its forces. Mr Dominique Perben, mayor of Chalon-sur-Saône, believes the area has rebounded from the setbacks of plant closures and is bullish on prospects for economic development. On the investment front, the local authorities and their development agencies have recorded several victories. The most recent is a joint venture agreement, signed last month, between Thomson of France and Fuji of Japan for the production of ferrites for use in consumer electronics. "We got our revenge on Scotland," jokes one official, referring to the fact that a Scottish site was also under consideration by the Japanese group.

The local authorities in the région's principal towns, from Dijon to Nevers and from Auxerre to Chalon-sur-Saône, are also seeking to target and assist areas of more dynamic development. In most cases, such a stance reflects an attempt to build on tha foundations of existing activities through improved co-ordination, financial incentives and infrastructure.

In agro-industry, for example, one of Burgundy's biggest economic sectors with 14,000 employees, the local authorities are putting FFr45m towards the initial FFr65m investment in a European taste and flavour research institute.

It is a similar story in the Vallée d'Image project. Burgundy is already home to some of the biggest players in the sectors involved, from Kodak, which has its European R&D beadquarters in Chalon-sur-Saône, to Thomson Multimedia, the Frencb electronics group. It is also steeped in tradition in images, having been home to photography pioneers such as Nicéphore Niépce and technological innovations such as the zoom lens.

To foster the development of the sector, however, the local authorities are taking a series of steps. The regional budget will fund research in the field, while potential investors may receive financial incentives. For example, the LCC division of Thomson, which established the joint venture with Fuji, received a substantial contribntion towards the FFr40m cost of the new plant.

In packaging and logistics, there is also a mix of poblic sector and private sector initiatives. Burgundy's strength in food and wine has drawn packaging firms such as Carnaud-Metalbox and Tetrapak to the region. Suppliers of packaging equipment, sucb as Cermex, have naturally wanted to be near their clients. Companies in the sector have been further encouraged by Burgundy's transport network, due to be extended next year with the establishment of a bi-modal centre to the south of Dijon which will allow the transfer of containers from lorries to trains.

Across the various projects, local officials reject charges that they are seeking to pick winners. Rather, they claim, they are providing tbe resources for the expansion of existing sectors. Traditional activities, from wine to beef prodnction, will continue to provide pillars for a more dynamic economy.

But the realisation of such aspirations depends on the ability of Burgundy to respond to broader challenges facing its development, from the spreading of wealth throughout the region to a greater unity between the four departments.

"The administrative entity called Bourgogne is an artificial creation," says Mr Clande Patriate, professor of politics at Dijon Univereity. He argues that the four departments, joined as one administrative region by e 1959 decree, retain different characteristics and identities, an argument illustrated by the fact that each has its own daily newspaper.

The diversity extends to the realm of politics. Whereas La Nièvre, to the east of the region, has traditionally been under the sway of the left, providing a power base for the Socialist President François Mitterrand, other departments, notably the Côte d'Or, have been dominated by the right.

More significantly, the various departments are pulled in different directions. "Yonne looks to tbe north and to Paris," says Mr Patriate. "The Saône et Loire looks to Lyons." The result is that it is hard to forge a common interest or e common strategy. For La Nièvre, for example, a priority is a north-south highway to place Nevers, its capital, on a valuable transport axis. Mention of a cross-region link to Dijon, necessary to bind the region, brings e tepid response from local officials.

For the region as a whole, a further obstacle is its position between Paris and Lyons. "In some respects, the proximity of these cities is detrimental for Dijon," says Mr Grenot of Lyonnaise de Banque. He argues that clients can often be treated by the larger financial centres of Paris and Lyons.

Local political leaders accept that there are some areas of concern. "We must have closer links with La Nièvre," says Mr Robert Poujade, the mayor of Dijon. Another issue be cites is the lack of a major second city in the department. "There is an excessive concentration on Dijon," he says, pointing to the fact that the regional capital has a population in excess of 250,000 compared with 20,000 in Beaune, the second biggest town in the Côte d'Or.

For Mr Poujede and most other observers, however, the geographical location of Burgundy continues to represent a trump card. "We have always been a zone of transit, and have always benefited from it," says one senior local official. He cites plans to build a high-speed link from Mulhouse to Dijon as evidence of further development.

But gaps remain. There is no high speed rail link from Dijon to Lyons, while the lack of an east-west motorway or rail system deprives the region of potential trans-continental traffic. "It is e preoccupation for the region," says Mr Paul Schmitt, director of territorial management at the regional council. On that, officials from across the Côte d'Or to La Niévre are agreed. That, and the need to add e bit of mustard to tbe development of Dijon and its region.

John Ridding on the significance of the local political scene

Punching above its weight

Burgundy socialists Francois Mitterrand (left) and Pierre Joxe in 1981

Dominique Perben, mayor of Chalon sur Saône

Jean-Pierre Soisson, mayor of Auxerre

Jean-François Bazin, president of the Burgundy Regional Council

Robert Poujade, mayor of Dijon

Since the days of its famous dukes, the significance of Burgundy politics has teodad to reach well beyond the region's borders. Recent years have proved no exception. "It still punches above its weight," says one local pundit.

There are two reasons for this influence. On the one hand, the region has continued to provide a power hase for several of France's leading postwar politicians. On the other, the diverse political complexion of Burgundy's four departments provide a reliable bellwether for national political trends.

Both factors can be seen, for example, in the rise of President François Mitterrand. After the war, the Socialist leader planted himself in La Nièvre, the left-leaning department to the east of the region. As meyor of Chateau-Chinon, deputy for the same area and one-time leader of the Conseil Général, the administrative body for the department, he amassed considerable clout.

During Mr Mitterrand'a tenure, the left extended its influence in other areas of Burgundy. Mr Pierre Joxe, for instance, the former defence and interior minister, was president of the regional council between 1979 and 1982. Mr Pierre Bérégevoy, the late Socialist prime minister, was parachuted in as mayor of Nevers. "The swing to the Socialists at the national level was clearly demonstrated in Burgundy," says Mr Claude Patriate, professor of politics at Dijon University.

In recent years, the swing has been in the other direction. Two of the three deputies from La Nièvre are from the right, while the conservatives have strengthened their hold of strategic municipal offices. Mr Dominique Perben, the mayor of Chalon sur Saône, is a minister in the centre-right government of Mr Edouard Balladur, while Mr Robert Poujade, a minister under the Gaullist President George Pompidou, has maintained his grip on Dijon, the regional capital.

The drift to the right is also reflected in the shifting allegiances of Mr Jean-Pierre Soisson, the mayor of Auxerre who served as a minister under President Mitterrand and the centrist President Valéry Giscard d'Estaing and who has just declared his support for Mr Jacques Chirac, the Gaullist mayor of Paris and the leading candidate for this month's presidential election.

The rise of the right has not removed divisions in local politics, but merely shifted their focus. Many of Burgundy's mayors and deputies have declared their support for Mr Balladur's presidential bid, notably Mr Poujade and Mr Perben. Exceptions, apart from Mr Soisson, include Mr Jean-François Bazin, the president of the regional council and a Chirac supporter.

With Mr Chirac having estahlished a clear lead in opinion polls, such allegiances suggest the presidential elections may reverberate through the Burgundy region. "It could create pressures for a reshuffling of the cards," saya one observer. "Many incumbents will not be sitting comfortably right now."

For most observers, however, the impact of a Chirac victory on Burgundy politics will be limited by several factors; the gap between local and national politics, the short time period of one month between the presidential and municipal elections and the prospect of a Gaullist regrouping after the divisive campaign.

"There may be a few victims, a few sacrifices to the electoral battle, hut the Gaullists tend to patch things up after battle," says one politics professor. "A lot will depend on the final stages on the campaign, and whether the victor, probably Mr Chirac, will open his arms to his opponents. Either way, be it peace or war in the Gaullist camp, the drama of the national stage should again be reprised in the elected offices of Burgundy.

Transport links: at the crossroads of Europe, the region has a strategic position

The gaps in the good connections

Like the powerful dukes that once held sway within its horders, Burgundy is strong on connections. Located in the valley which runs from northern to southern Europe, and close to the horder between France and its eastern continental neighbours, the region has long benefited from its strategic position at the crossroads of Europe's transport links and between its major powers.

"Location has always been one of the trump cards of the region," says Mr Yves Japiot, vice-president in charge of economic development at the Burgundy regional council. "Ever since the Romans, we have heen at the centre of Europe's cultural and economic activity," adds a colleague.

Nowadays, this position is cemented hy a weh of road, rail and river links which hind the region to the centre of the European transport and husiness network. As trans-European trade continues to expand in the wake of the collapse of communism and the creation of a single European market, such a position entails clear economic henefits for Burgundy. The hig question for the future is how to capitalise on the opportunities and whether Burgundy's communications links are solid enough to ensure that the benefits cootinue to flow.

The response from local officials and industrialists is one of optimism. "Overall, we have a very strong and strategic transport network," says Mr Robert Poujade, mayor of Dijon. But he admits that work remains to be done. "There are some gaps which need to be filled."

On the first count, the statistics support the claims of a strong existing communications huh. Burgundy has more than 500km of autoroutes, placing it among the top quarter of France's 20 regions in terms of motorway coverage. More significant is the positioning of the autoroutes which link Paris and northern Europe to Lyons, the south and the east of the continent.

On the railway network, Dijon is served hy the high-speed Train à Grande Vitesse from Paris, shrinking the journey between the regional and national capital to less than two hours. As for river communications, the Saône to the south of the region links Burgundy to both the Rhine and the Rhône and hence, in theory, to the Mediterranean and the North Sea.

Such communications links have brought obvious benefits. Companies such as Kodak and many transportation groups have been drawn hy the region's logistical advantages. "Increasingly there is a need to co-ordinate shipments between the various European markets," says the manager of one electronics firm with a plant in Burgundy. "So you need somewhere central with a reliable system of roads and rail." The manager of a road haulage company agrees. "It is a logical base for continental European operations. Most regular destinations are within striking distance of Dijon."

"For European operations, most places are within striking distance of Dijon"

Steps are being taken to further extend this strike range and strengthen Burgundy's transport links. From next year a bimodal rail and road container facility is due to operate from the south of Dijon.

Agreement has been reached at government level to build a high speed rail link from Mulhouse to Dijon, opening up a high-traffic market from the regional capital to southern Germany and Switzerland. The line, which will cost an estimated FFr12bn, is expected to be built within 10 years.

But despite such new strands in the communications web, weaknesses remain. "The real preoccupation is the east-west axis," says Mr Paul Schmitt, director for territnrial management at the regional council. "There is tremendous potential for traffic from Germany and eastern Europe across to the Atlantic but the infrastructure does not yet exist."

There is some movement to resolve this problem. An autoroute between Auxerre, to the north of Burgundy, and Bourges is in the works. But this is only a relatively short step and is not expected to be completed for 10 or 12 years. Pressure on the state and regional budgets prevents a more rapid pace, as do environmental considerations relating to the construction of a new swathe of highways.

Another weak link is to be found in the region's waterways. Substantial freight along the Rhine and the Rhône is blocked by the lack of an adequate link between the two mighty rivers. It is possible for freight to travel from one to the other, but it involves transferring to small barges of about 250 tonnes of capacity for a 250km stretch to the north of Chalon sur Saône. "This is not economical," says Mr Jean-Claude Bacque-Mouret, managing director of Aproport, the Chalon-based group which is France's second largest river ports association.

Mr Bacque-Mouret, like many in the region, dreams of a project to link the Rhine and the Rhône more effectively and to allow large barges to complete the journey from Marseilles to the mouth of the Rhine.

He points to significant henefits, including costs. At the moment, for example, his company charges between FFr1,500 and FFr1,800 per container for the journey between Chalon and Marseille. By road, the cost is between FFr2,800 and FFr3,200.

Of late, the dream has taken a few steps towards reality. Last year the French parliament passed a law approving the construction of the Rhine-Rhône canal and setting a deadline of 10 years for the link to be built. The cost, estimated at about FFr17bn, is due to be shouldered by state enterprises such as Electricité de France and Compagnie Nationale du Rhône. "It is a significant step because it is the first time that a system for financing has been established," says Mr Dominiqne Perben, mayor of Chalon sur Saône.

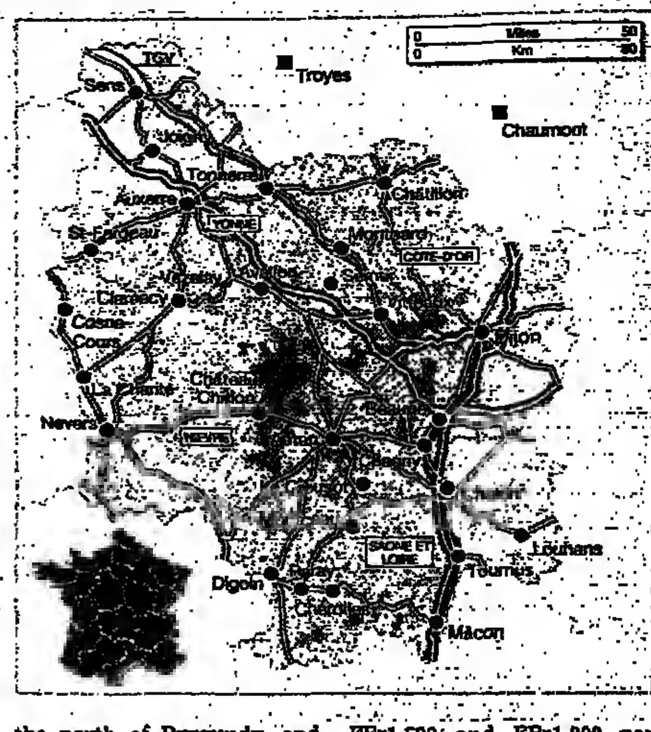
The scale of the funds involved, opposition from environmental groups and the long history of frustration over the project suggest, however, that caution should remain the order of the day. The law passed by the French National Assembly still lacks the *décret d'application* which would put the decision into force. The barge captains of Burgundy still have plenty of time to plot their course.

John Ridding

The region's top ten employment sectors

	Employees	% share (Burgundy)	% share (France)
Mechanical manufacturing	18,276	13.3	10.3
Electronics	15,880	11.6	12.4
Metallurgy	14,452	10.5	10.1
Agro-industry	14,018	10.2	11.3
Rubber and plastics	11,229	8.2	5.2
Wood, furniture	10,166	7.4	6.0
Motor industry	8,702	6.4	8.3
Steel	8,585	6.3	3.3
Textiles, clothes	8,368	6.1	7.8
Chemicals	8,130	5.9	4.5

Source: Asdescc



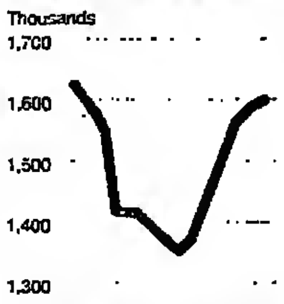
■ THE FOUR DEPARTMENTS

Diversity is common denominator

Like the mosaic roofs on traditional Burgundy buildings, the region is itself a patchwork of diverse components. "There is no uniformity, nor a single identity in La Bourgogne," says Mr Claude Patriate, professor of politics at Dijon University.

The most obvious cleavage is to be found between the four departments which comprise the region – the Côte d'Or, the Yonne, La Nièvre and the Saône et Loire. Joined as one administrative region hy a decree of 1959, the departments retain significant particularities, from their daily newspapers – one for each of the four – to their geography, and from their political and economic traditions to their aspirations for future development.

Burgundy: population



Source: INSEE

The Morvan hills, which run from the north to the south and splice La Nièvre from the Saône et Loire and the Côte D'or, represent an ohvious geological frontier.

"We are a hit like the wild west," jokes Mr Yves Jouot, the representative of the industry ministry for the Nièvre region to the east of Burgundy.

Political sympathies and traditions also vary across the departments, as do their industrial structures. The industrial centres of the northern Yonne and Chalon sur Saône, home to some of the region's biggest manufacturing plants, strike a contrast with the vineyards of the Cote d'Or and the rural expanses of La Nièvre, home to the famous Charolais beef herds.

Such divergences do not extend to feuds or hostility. "Bourguignons are by their nature moderate and reasonahle," says Mr Robert Poujade, mayor of Dijon. "We have different newspapers and different wines, but it is not something to come to blows ahout," says one official in Chalon sur Saône.

There is, however, a serious side to the divergences hetween the departments. "They are all looking in different directions," says Mr Patriate. "L'Yonne towards Paris, the Saône et Loire towards Lyon, La Nièvre to the centre and the Côte d'Or to the east. This makes it difficult to forge a common strategy concerning communications and development."

Mr Jean-François Bazin, president of tha regional council, the powerful local government body, accepts that there are differences in outlook and ambitions. But he argues that particularities are as common within the departments than between them and thet there are economic forces binding Burgundy together.

The departments themselves are certainly a hybrid of rural and industrial centres.

Even La Nièvre, a picturesque area of rolling countryside, is home to a number of significant industrial groups snch as Imphy, the metal concern. A short drive from the industrial zones of Chalon sur Saône leads to the vineyards and agricultural districts of the Saône et Loire.

As for common economic objectives, several industrial sectors are to be found dispersed across the region. Each of the departments has plants connected to the auto and metal working sectors, and all are strong in agriculture.

But much needs to be done to hind the region more firmly, particularly in the area of transport.

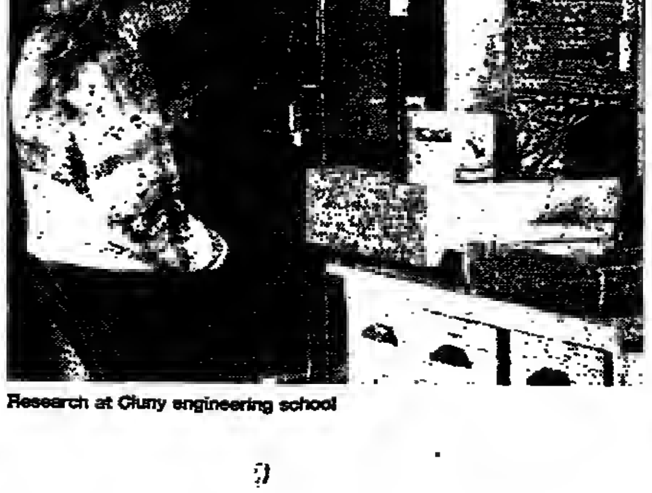
The drive from Dijon to Nevers takes well over two hours, and is without an autoroute for all but the first part of the journey. But even proposals for an east-west motorway prompt a divided response. "Our priority is have an autoroute linking north and south through Moulins," says one Nevers official. "There is much less demand in the direction of Dijon."

John Ridding

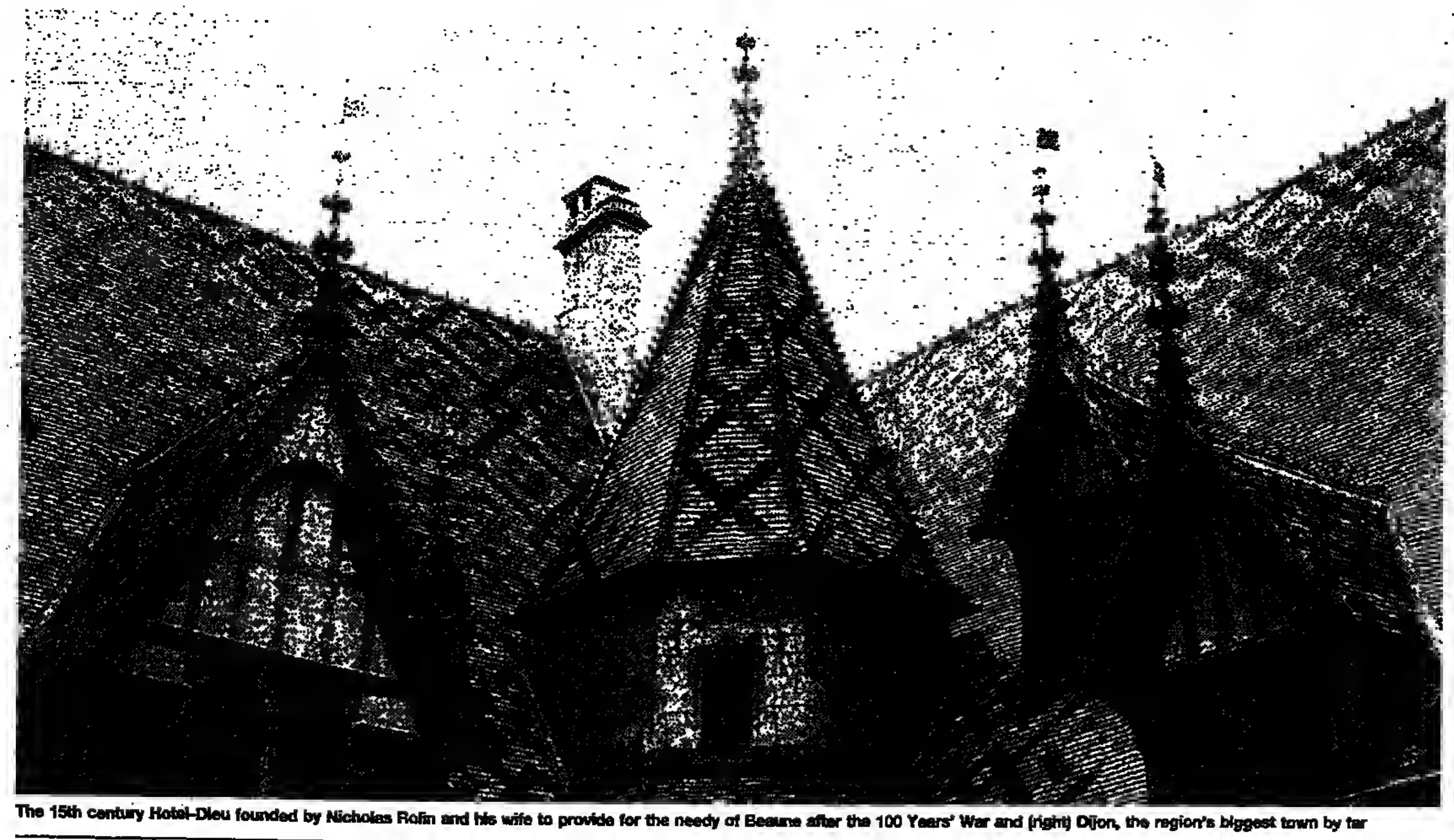
Population of the region's 20 biggest towns

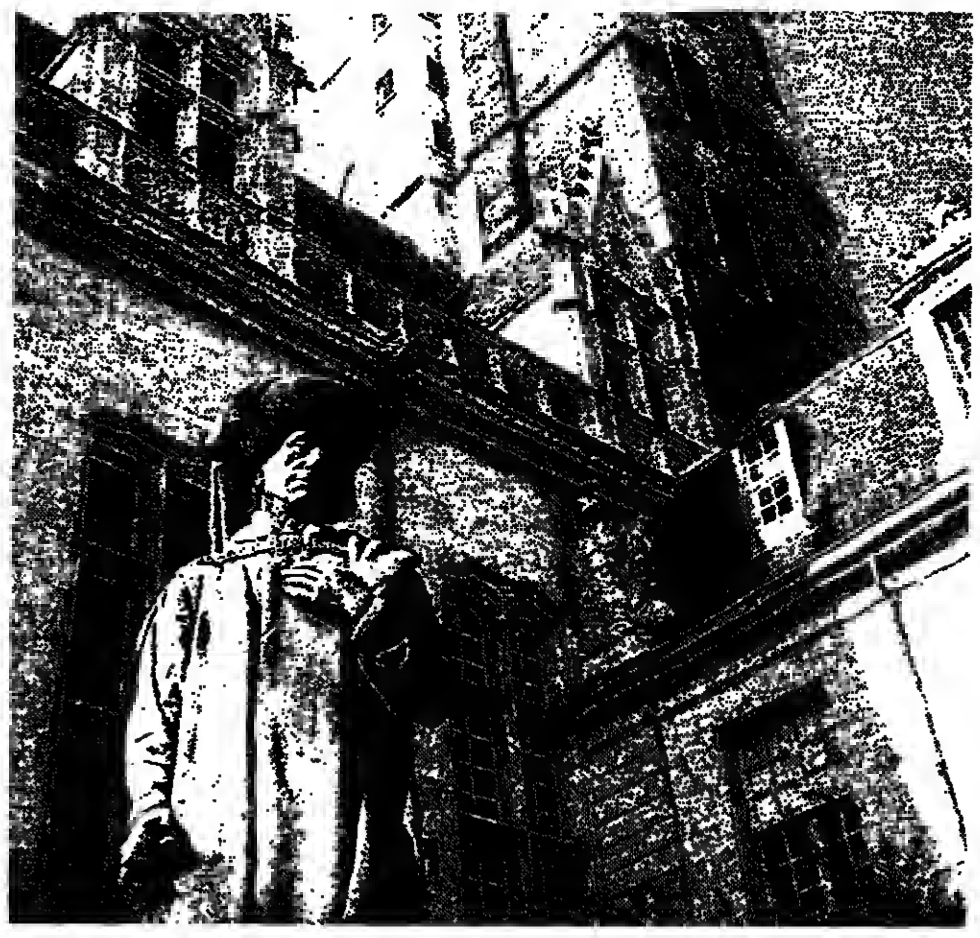
		Population 1990	% growth 1982-90	% growth 1975-82
Côte-d'Or	Dijon	230,451	+5.2	+0.8
	Beauna	21,289	+5.4	+6.0
Nièvre	Navers	58,915	-0.6	-0.3
	Cosne-Cours-sur-Loire	13,184	-1.8	+3.6
	Decize	9,057	-5.8	-0.9
	Fourchambault	8,976	-5.1	-8.5
Saône-et-Loire	Chalon-sur-Saôna	77,764	-0.6	-0.3
	Montceau-les-Mines	47,283	-7.8	-0.2
	Mâcon	46,714	-1.2	+0.4
	Le Creusot	40,903	-7.9	-0.1
	Autun	17,906	-10.8	-4.5
	Digoin	12,313	-6.1	-0.1
	Louhans	10,997	-4.2	-1.7
	Paray-le-Monial	9,859	-7.3	-7.8
	Gueugnon	9,697	-7.3	-2.6
Yonne	Auxerre	42,005	-0.3	+2.0
	Sens	36,221	+3.0	+5.3
	Migennes	13,321	+1.2	+1.3
	Joigny	9,697	+0.5	-12.1
	Avallon	8,617	-3.2	+1.0

Source: Insee



Research at Cluny engineering school





The 15th century Hotel-Dieu founded by Nicholas Rolin and his wife to provide for the needy of Beaune after the 100 Years' War and (right) Dijon, the region's biggest town by far

Why the US photographic giant set up in the home of 19th century film pioneers

Incentives brought Kodak to Chalon

It is fitting that Kodak, the US film and photographic giant, should be firmly installed in Chalon-sur-Saône. The town, on the banks of the Saône river to the south-east of the Burgundy region, was home to 19th century photography and film pioneers such as Nicéphore Niépce.

For Kodak, however, it was hard-headed bnsiness considerations rather than romantic tradition that underpinned its 1960 decision to build its Chalon plant. "To be frank, the key reason was the financial assistance we received as a result of the French government's policy of promoting decentralisation," says Mr Philippe Cherpion, head of the plant.

Whatever the reasons, the Kodak plant at Chalon has grown into the biggest industrial operation in the region and the largest exporter. It employs 2,600 full-time workers, plus 300 on short-term contracts. Along with a site at Harrow in England, it is Kodak's principal, and most modern, plant in Europe. Dozens of millions of film rolls leave the factory gates aach year, contributing to total annual production in billions of francs.

But the significance of the Chalon plant extends beyond the revenues and production it brings for the US film and photography giant. Kodak's presence reflects the strategic incentives for many of the foreign and French investors in Burgundy. It also represents a significant element in the region's aspirations in the imaging, electronics and cultural fields.

On the first count, it was geographical considerations which helped tip the decision towards Chalon rather than other potential sites, such as Montpellier. "It is an important strategic location," says Mr Cherpion. "We are on a big network of autoroutes which puts us in reach of all of our principal European markets from Spain to Germany and from Belgium to Italy." Available labour, and an abundant supply of water, were other important factors.

Such considerations apply not only to Kodak. Many of the large industrial groups with operations in the region, from Phillips of the Netherlands to Thomson of France, are drawn by the communications network. "It is an increasingly important consideration, given that many industrias, particularly consumer industries, have to be close to the client and also in a position to serve several European markets," says the managing director of one foreign electronics group.

Within the boundaries of Burgundy, the presence of Kodak lends weight to the region's strategy of strengthening its position as a European centre for the imaging, visual and photographic industries.

Dubbed Vallée d'Image, this strategy comprises initiatives and funding to promote R&D and investment in the various activities and to foster links between the players in the sector and the region's universities and educational centres. Kodak, for example, already co-operates with Dijon University in training its workforce and on specific research projects. It also participates in cultural projects such as this year's celebrations to commemorate the centenary of cinema.

More broadly, the size of the Kodak operation means that its success is central to the health of the local economy. "A big company is welcoma, but it can also entail big risks," says one local Chaloo official, referring to the 1984 bankruptcy of Creusot-Loire, the metal and engineering giant in the nearby town of Le Creusot.

At Kodak, however, there seems little cause for concern. A restructuring and productivity programme, launched over the past few years, has promptad a significant improvement in efficiency. "In 1983 wa were about 20 per cent less productive than the big US plants," says Mr Cherpion. "Now we have caught up, and expect to achieve faster productivity growth." Reduced wastage, lower stocks, and a shift to team-based production are the reasons he cites for the improvement.

With respect to its various products, Mr Cherpion points to strong demand for photographic paper, films for amateur photographers and for cinema film. "Movies are longer nowadays, and we are also benefiting from the breakdown of the exclusive distribution system," explains the Kodak plant chief.

There is also healthy demand for new products, such as disposable cameras. About 4m rolled out of the Chalon plant in 1994, with production expected to climb to between 7m and 8m this year. "It is significant because it is the first time we have manufactured a camera at this site," says Mr Cherpion. "It is good for morale."

So, too, is the trend in production. "We are near saturation in most sectors," says the Kodak executive. "In the years to come we may have to increasa capacity."

There can be hiccups. This month, Kodak became the latest company to be hit by a spate of strikes in France as unions seek to press demands for higher wage claims. "With presidential elections looming and with Kodak being such a big employer, it is perhaps not surprising that unions will test their strength there", says one industry analyst.

Generally, however, Kodak's relations with the workforce and the community have strengthened. Also on the rise are the company's contacts with the region and the local community. "Until five or so years ago the company was draped in splendid isolation," says Mr Cherpion. "We were, I admit, a bit arrogant." Since then, the barriers have been falling. A communications drive, factory visits and support for local arts and cultural events have anchored the US group more firmly in the community.

The transformation has been noticed. "It is true, they are more open and more active than they used to be," says one local official. "That is as it should be because they are the biggest employar in tha region." In his mind, however, what matters most for Chalon and its environs is that the films keep rolling out of the Kodak factory gates.

John Ridding

■ MOTOR-RACING

Make or break time on the Magny-Cours circuit

The whine of Formula 1 racing cars at the Magny-Cours circuit sounds incongruous against the backdrop of the quiet countryside of La Nièvre, one of the more rural of Burgundy's four administrative departments.

For many observers, the circuit and the surrounding commercial zone is itself an oddity. Ever since the decision was taken in the mid-1980s to create a state-of-the-art F1 track and a business centre, critics have attacked the project as a white elephant and a waste of the FFr300m which was pumped into the scheme.

Its defenders, from the department administration which championed the project to the companies installed on the site, point to the 400 jobs that have been created and to the potential to develop a centre of automotive research and engineering. They claim that the investment in the site provides evidence of a dynamic industrial policy in the region and an important step in attempts to expand a local automotive sector which already includes tyre manufacturers and components groups.

Despite snch divergent views, however, there is a consensus that the next few years will be critical for the project. "Make or break time is looming," says one Burgundy politician, expressing a common sentiment.

Moat immediate and most crucial is the decision on whether to award Magny-Cours the next tranche of France's F1 grand prix. The current five-year contract will expire whan the cheqnered flag falls in the July 1996 contest. By then, the decision will have been made about where the next series of races will be held.

The stakes are very high. Of the 400,000 visitors to Magny-Cours last year, 75,000 came to watch tha French F1 grand prix. The Holiday Inn, built on the Magny-Cours site as part of the development, receives about 10 per cent of its annual revenues during the big race period.

More broadly, the award of the grand prix is seen as vital by the businesses operating around the Magny-Cours circuit. "It is important for the credibility of the site," says an executive of Danielson, a supplier of equipment for the motor sport industry.

> Charmant's response has been to "relaunch the dynamics" of the site

But if the decision by the French and international motor authorities is vital, so too are attempts by the circuit's management to extend its appeal to new businesses and broaden its scope as a leisure centre.

On the first count, the site has achieved some success. The decision by the Ligier racing team to base its operations at Magny-Cours has brought about 130 jobs. But the range and number of businesses have remained relatively limited. "There is no question about its success as a top racing circuit," says one economic official in Nevers, "but in terms of attracting businesses the results have been more mixed."

Mr Marcel Charmant, a socialist senator and head of Siaed, the local development agency which has managed the Magny-Cours project, accepts that the activity around the site has not matched initial expectations. Part of the reason, he argues, is the recession which struck France in 1992 and 1993. "It was not the best time for new investments here or anywhere else," he says.

For Mr Charmant, tha response has been to "relaunch the dynamics" of the site. In addition to prospecting for companies, from the automobile sector but also from related activities such as materials development and marketing, the local authorities are improving tha research and development facilities in the vicinity. In particular, the city of Nevers last month inaugurated Isat, an engineering school which will train 40 students a year in mechanics and related subjects.

Magny-Cours is also seeking to expand its appeal through the development of new leisure activities. "Our target is to draw 1m visitors a year," says Mr Charmant. To do this, the circuit has built a motor-cart racing track and is planning an automobile museum.

All this, of course, costs money. The museum, due to open next year, represents an additional investment of about FFr40m by the Conseil Général, the government authority for the department. For Mr Charmant, and for other local officials, it is necessary to broaden tha appeal of the centre and to ensure revenues should the worst come to the worst in the grand prix awards. In so doing, however, it raises tha stakes at Magny-Cours still further.

John Ridding

■ PACKAGING INDUSTRY

Growth phase may be on way

The first rule of the packaging industry, according to the chairman of one of the biggest groups in the sector, is to be where your clients are. "It has become less and less possible to serve them at a distance," he says. "You hava to co-operate on design and new products and to save on transport costs."

Hence, it should come as little surprise that most of the big names in the packaging business should be found in Burgundy. The region's strength in the agro-industrial sector and in winea and beverages haa prompted CarnaudMetalbox, Tetrapak, Rical and many others to set up shop in the region.

The presence of such food giants as Danone and Nestlé and of several pharmaceuticals concerns is, however, not the only factor bahind the davelopment of a packaging sector which now counts more than 8,000 employees. The existence of chemicals and plastics prodncers has facilitated sourcing and the supply of packaging materials while the antoroute network provides a strong distribution system in the region.

"There is a tradition of expertise in materials and in mechanisation," says Mr Jean-Luc Giraud, the head of the Dijon plant of Rical. "We are close to our customers and the geographical situation is an advantage, he says. A countarpart at another packaging concern concurs. "The environment is conducive," he says.

The economic environment, however, has been less conducive over the past few years. Recession in France and in other continental European markets between 1991 and 1993 prompted a fall in demand and a rise in competition between the various players in the sector. "Volumes have been resilient, but margins have suffered," says Mr Giraud. He argues that the pressure on food producers from the impact of recession and the rise of own-brand and discount rivals has intensified competition along the industry chain.

> "Think of where the car industry was 25 years ago and the techniques which have been introduced since. That's now happening in packaging"

For most in the sector, the worst has now been left behind. Although French consumer demand remains fragile, it does appear to have stabilised. Exports, meanwhile, have provided a strong source of growth.

"The markets are more encouraging than for several years," says one packaging executive. "That and the rise of new products and methods of packaging suggests that the industry is in a growth phase."

Such new products range from discrete innovations, such as a simple stopper for oil products, developed jointly by Rical and Tetrapak, to broader concepts such as wrap-around packaging. As for the change in methods, it involves a fundamental shift in the way that companias in tha sector are organising themselves. "Think of where the car industry was 25 years ago and the shift to team-based manufacturing and stock control techniques which have been introduced since," says one aenior executive. "That is what is happaning now in the packaging sector."

The shift in production techniques and the introduction of new products is good news for suppliers of packaging equipment. Cermex, for example, a local packaging and equipment manufacturer, has resisted the vagaries of the market and has capitalised on the shift towards more productive manufacturing methods. "More and more, there is a connection between packaging and its production and that works to our benefit," says Mr Bernard Broye, general manager.

For many in the sector, howaver, it is a painful adjustment. "At the end of the day, the drive towards increased productivity involves two certainties; a wrench in the way things have been done traditionally and fewer people on the factory floor," says tha director of one European packaging director. But, as he accepts, there is no choice. "Either the companies here and in other centres of the industry push ahead with the process or they lose out. Ultimately, the failure to act will be much more painful."

John Ridding

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At last month's auction conducted by the Hospices des Nuits-Saint-Georges, everyone had hoped for something better than the eventual outcome of a 1.39 per cent decline in the average price bid for some of Burgundy's best.

The outcome was perhaps even slightly disappointing for Mr Takekazu Kawarmura, a senior Japanese diplomat invited to sit st the top table among the local dignatories in recognition of his country's growing interest in Burgundy wines. In addition to the hulk of the wine suctioned off to fund local social work was a lot sold for victims of the recent Kobe earthquake.

But the Nuits-Saint-Georges auction, held in the splendid surroundings of the Chateau de Clos Vougeot, was a reminder that these occasions have as mnch to do with wine tourism as with providing an accurate leading indicator of the market for Burgundy wine. The fact that the Nuits-Saint-Georges auction prices this year were slightly lower than in 1993 provides as inaccurate s guide to Burgundy wines prices as the astonishing 53 per cent increase recorded at last November's even better known Hospices de Beaune auction.

Happily, the reality for Burgundy's nearly 6,000 viticulteurs is more stable, and tending towards recovery. According to Mr Christophe Denoel of the Burean Interprofessionel des Vins de Bourgogne (BIVB), the region's 1994 harvest is selling at prices that are 10-15 per cent higher than for the 1993 vintage. Hosting a dégustation back in Nuits-Saint-Georges, on the same day as the Clos Vougeot auction, Mr Albert Jaffin, president of the local vintners union, was anything but gloomy about the 1994 vintage. Likewise, the previous decline in market prices was nothing like as drastic as the four successive falls of more than 20 per cent in the annual Beaume auctions over the 1990-93 period would have indicated.

Vintage struggle: the region is concentrating on quality to fight off competition, **David Buchan** writes

Wine industry overcomes a bad patch

The splendid surroundings of the Chateau de Clos Vougeot

Nonetheless, Burgundy has come through a hsd patch. After strong demand in the 1980s bid prices up excessively, the regional wine industry hit s number of problems in the early 1990s. The Gulf War of 1991 and sporadic US action to penalise European wine exports at various points during the long Gatt negotiations led to a decline in foreign demand, while the French recession of 1992-93 squeezed domestic consumption. A new law banning most advertising of alcohol has also restricted efforts to boost domestic demand.

This legislation probably affects lower grade wines more than Burgundy vintages which are well established with French oenophiles. But the very complexity of Burgundy wines is a handicap, Mr Denoel believes, particularly abroad where "new consumers – the young especially – find it hard to pick their way through the multitude of Burgundy producers whose labels often do not state what sort of grapes their wines are made of. They often prefer to choose something simpler from South Africa or Chile."

For the break-up, at the time of the French Revolution, of the religious and baronial establishments that dominated Burgundian winemaking meant that Burgundy has far fewer large holdings than in the Bordeaux region; less than 10 per cent of Burgundy vineyards are more than 10 hectares in size, and many of these are scattered in several parcels of land. Burgundy also has a large number – 120 at present – of négociants, involved in growing, bottling and selling their own and others' wines, who handle nearly three-quarters of the region's output.

A generation ago, Burgundy was primarily known for its distinctively heavy and strong red wines, preferred by French consumers and those with the same drinking preferences in Belgium and Switzerland; the latter is a special case, because it produces quite a lot of white wine which is well protected from imports, but relatively little red. The big change in the past 25 years has been increased production of light whites, such as Chablis from the Yonne, and heavier Chardonnay and Aligoté whites from further south, chiefly for export to the US, followed by the UK and Germany. In fact, today, the whites account for 60 per cent of total Burgundy output, and two-thirds of them are exported, though many also go to restaurants in France where they end up being downed by foreign tourists.

The upshot is that Burgundy's sales are now divided equally between home and abroad. The BIVB, like so many other western industries, is now targeting Asia. Following the success of both its reds and whites in Japan, Burgundy is now trying to develop a market in Singapore, Taiwan, South Korea and Thailand, as well as China through Hong Kong.

But in addition to the recurrent problem of maintaining market share in the US at a time when its currency seems to keep depreciating against the franc, there is a new spectre of new draft European Union proposals to bring overall excess wine production into better balance with consumption with a system of national quotas for individual EU countries.

Once known mainly for its heavy reds, Burgundy has increased production of light whites

With its relatively small output of 1.2m hectolitres (one hectolitre equals 100 litres), out of total French production of 56m hectolitres, Burgundy is strongly opposed to any restrictions and has joined with Bordeaux to lobby Brussels. "Regions that can sell their production, without any EU aid, should not be penalised," says Mr Denoel, pointing out that making Burgundy suffer is not going to help other parts of Europe. "If a Japanese wants to buy a Burgundy and cannot, he is not going to buy a Sicilian red instead, but probably an Australian red," he says.

The key to maintaining Burgundy's niche in the world is quality. Though based in the ancient wine town of Beaune, there is nothing musty about the BIVB laboratory, which smells like a hospital. It carries out research into improving homogeneity and therefore reliability in the region's wines, reducing the sulphur dioxide content in its white wines, and finding ways of producing wines with less tannin but with the same ageing qualities. The BIVB imposes compulsory chemical and dégustation tests for all *appelation controllés* wines, while another body vets wines for their export suitability. "This is self-regulation," says Mr Denoel. "In Burgundy we don't like external controls, either from Brussels or elsewhere."

■ THE REGION'S GASTRONOMIC DELIGHTS

All tastes catered for

Follow Fidel Castro's recent steps into the rolling hills of the Yonne department north of Auxerre, and in the tiny town of Chailley you will come across an enormous chicken processing plant and the headquarters of the Bourgoin group, the world leader in fresh poultry.

It was apparently more out of pleasure than business that Mr Gérard Bourgoin, founder-owner of the FFr5bn a year poultry group, invited the controversial Cuban leader to Chailley. Cuba these days has less money to pay for Bourgoin chickens, and indeed since the 1993 Gatt agreement the group has had to cut its EU-subsidised exports and focus more on selling to the rest of Europe.

But by the time he recently decided, at the age of 56, to hand most of the business to his daughter, Corinne, to run, Mr Bourgoin had already pnt Chailley on the international map. The Bourgoin group is still based in Chailley out of Mr Bourgoin's loyalty to the town where his father was the butcher and to the region where be sponsors Auxerre's rated football team. But, like much of the French meat business, Bourgoin now has most of its rearing, slaughtering and processing plants near Atlantic and Mediterranean ports, handy for importing feed and exporting processed poultry.

The association in the public mind of Burgundy with taste and flavour, however, still draws many food companies to the region. Its food industry employs more than 14,000 people directly and another 100,000 indirectly, while Dijon is shortly set to attract further hi-tech research into food with the creation of the European Centre of the Science of Taste.

Some of the companies are completely unknown to the public. One example is International Flavors and Fragrances, a US company and world leader in putting tastes and smells into what we eat.

"Our clients are not the likes of Carrefour, but of Danone," says Mr Thierry Guyard, mansger of IFF's Dijon plant, which makes no fewer than 2,500 different aromas for different clients. IFF moved its French operation from Paris to Dijon in 1962, originally because it wanted the region's red fruit to make concentrate. Even though it no longer makes fruit concentrates, and many of its French clients have moved west, IFF has stayed to capitalise on the region's culinary know-how. It has even taken over part of the nearby premises recently vacated by Hoover.

A newer example of a "professional" food company is Eurogerm, founded by an enthusiastic young biologist, Mr Jean-Philippe Girard, in 1989 on a bank loan. Its speciality is helping cereal companies with the taste and texture of their products, and it now has some 400 clients in France and abroad, including a leading UK group for which it is trying to develop a natural preservative. "We chose Dijon, because it is known for its gastronomy and rapid identification is important in the market, because it has good communications and because France is Europe's wheatbelt," says Mr Girard.

In contrast, Amora is a household name, at least in France where its little jars of mustard, condiments, spices, mayonnaise, and ketchup containers are in 30 per cent of the country's kitchens. In contrast also to new arrivals such as IFF or Eurogerm, Amora has roots in Dijon that go back to the mid-18th century, though it is now part of the Danona group that also owns another Dijon mustard-maker, Maille.

The reason wby Dijon became famous for its mustard was the growing of mustard seeds and the presence of wine vinegar to mix into them. Curiously, virtually all the mustard grains for Amora (whose name, of course, is simply an anagram of aroma) and other Dijon mustard-makers come these days from the plains of Saskatchewan in Canada, and no longer from Burgundy where in the 1940-50s farmers moved to more profitable crops with prices guaranteed by Brussels. But Amora has now replanted some 250 hectares of Burgundy with mustard for research purposes.

In addition to promoting its historic mustard staple, Amora has high hopes of further expansion for other "convenience" products. It cites, for instance, the way home-made mayonnaise – delicious but a lengthy bore to make – has been replaced by ever-tastier industrial brands like its own. Amora executives hope to do the same with vinaigrette and note that while some 200,000 tonnes of vinaigrette is consumed in France every year, only 15,000 tonnes of it is made industrially.

Out of what Mr Thomas Derville, Amora's chief executive, describes as his company's desire "to know more about taste and texture, what determines taste, why one ingredient pleases and another irritates," Danone is helping to fund the new European taste centre, along with France's CNRS national research council and the INRA agricultural research institute. Mr Derville says Danone's particular interest in this is to disseminate the fruits of this research, via a new public foundation, to industry, even including some of its leading competitors, including Nestlé and Unilever.

There is already a substantial research basis on which to build. Mr Patrick Gervais, a professor at the Ensbana applied biological food centre, is also involved witb the CRITT technology transfer unit, where he conducts such experimants as snbjecting foods to thermal extrusion to change their texture or by injecting microbes to alter taste. In the area of taste, Mr Jean-Luc Le Quéré of Inra is not only using biotechnological ways of altering the savours of food, but deeply involved in the analysis of consumers' preferences. Providing special computer software for this taste analysis is a Dijon company called Biosystemes.

In the end, however, there is no substitute for the trained taster who can, according to Mr Gervais, detect "a one hundredth of a millionth of an aroma molecule". He and others in the Burgundy food industry quickly dispel any notion that they might be trying to create uniform "Euro-tastes", single flavours for the single market. Rather, they insist they are trying to increase the diversity of European gastronomy.

David Buchan

David Buchan on the canon who gave his name to a drink - and two litigants

Kir squabble spurred single market

Kir, that delicious mix of blackcurrant cassis and white wine, is worth fighting for. Two litigious liqnenrists of Dijon have spent long years fighting each other and third parties over Kir and its cassis component, laying in the process nothing less than the legal basis for Europe's single market.

Creme de Cassis, first produced commercially in Dijon by Jean Baptiste L'Héritier in 1845, has long been in Burgundy to take the rough edge off the region's second-rank Aligoté white wine, in addition to being sometimes drunk by itself by old ladies and poured into cocktails, particularly between the two world wars.

But the mixture of vin blanc and cassis gained its modern name from Canon Felix Kir, a clergyman-politician who was depnty mayor of Dijon from 1945 to his death in 1968. Canon Kir made so much of a point of serving the mix of these two local prodncts at the mairie that it came to be known as a Kir.

"The name is marketing magic," says Mr Jacques Damidot, president of the Lejay-Lagoute liqnenr company, pointing out that "its three letters are pronounced the same way in all languages," just like Baron Bic of ballpoint pen fame.

As early as 1951, a member of the Damidot family had the forethought to ask the canon to let Lejay-Lagoute use his name. The canon gave his written permission. In 1952, the company registered it as a trademark, which took a further three years to be listed in an official journal. On its publication, L'Héritier-Guyot promptly complained to the canon, who in his obliging way wrote to the rival company to say that it, too, was welcome to use his name.

After the canon's death in the early 1970s L'Héritier-Guyot brought a ready-mixed Kir for the US and UK markets, and then the writs started to fly. Lejay-Lagonte contested the canon's second letter, and after a lengthy wrangle that lasted until 1992 the courts finally npheld Lejay-Lagonte's exclusive right to the Kir trademark.

"The name is marketing magic. Its three letters are pronounced the same way in all languages"

Now, however, Mr Damidot is not quite sure what to do with his victory. He has started producing a ready-made Kir, but admits that marketing it in competition with his own Creme de Cassis is "a delicate matter". He points out his company's main business is making concentrated liqueurs and that to branch out into larger volume ready-made drinks would be beyond the physical capacity of Lejay-Lagoute's traditional factory in the centre of Dijon.

Restaurants, too, have proved resistant to buying ready-made Kir, preferring to mix their own and get a higher price mark-up.

In France there is the additional fiscal problem that Kir is taxed as a spirit, rather than as a wine. But ready-made Kir has the advantage that it can be made with less sugar than Creme de Cassis, which needs considerable sweetening to mask the vitamin C in blackcurrant and to give it some viscosity.

While *L'Héritier-Guyot* may have lost the Kir case, it won another, of wider import. Its attempts in the 1970s to find a wider market for its various Cremes de Cassis brands, with 16-20 per cent of alcohol, ran up against a German claim that no liqueur could be imported into Germany with an alcohol strength of less than 23 per cent. Judging this to be ridiculous, L'Héritier-Guyot took legal action. This ended in the European Court of Justice which, in its 1978 Cassis de Dijon ruling, said that, barring any special health or safety objection, a product fit for sale in one European member state could be sold in all other member states.

It was this principle of "mutual recognition" by countries of each other's product differences that proved a far quicker and more acceptable way of creating a European single market than old-style attempts at straight harmonisation. Mr Jean-Dominique Caseau, chief executive of L'Héritier-Guyot, says there was also something in it for his company. "We now have 80 per cent of the German market."

Andrew Jack looks at the attractions that the region offers

Getting visitors to stay a little longer

From the vineyards of the Côte d'Or at its core to the historic towns and villages scattered throughont its varied landscape, Burgundy offers a variety of sttractions for tourists: indoors and outdoors, urban and rural, gastronomic and cultural alike.

One of the principal attractions of the region is undoubtedly wine. Introduced to the cultivation of the grape by the Romans, the local people were able to take advantage of the favourable soil and climate and turn Burgundy into one of the most significant producers of high-quality wines.

Today, it produces some 40m gallons a year. Take the most cursory glance at a map of the area, and the eye is quickly caught by the villages that have given rise to such well-known names as Chablis, Pouilly, Santenay, Pommard and Meursault.

Most of the districts offer local wine itineraries such as the "route des grands crus" between Dijon and Beaune, with no end of free tasting sessions to encourage eventual purchases from the growers. Timing is all, however. During peak season, music and other festivals often accompany the wine-based activities.

At the other extreme, off-season openings are rather more erratic. Planning can be well worth the effort, considering that the *hospice* in Nuits-Saint-Georges is open for just one weekend a year in March to sell its prodnce, for example. Equally, driving out of season through a landscape of gnarled vines before they have begun to turn green can be less than inspiring.

Accompanying good wine has naturally come the development of good food. The region offers many local specialities, including snails, *coq ou vin* and *boeuf bourguignon*, often using regional wine and locally-produced ingredients such as mustard as part of the cuisine.

Inevitably, a good number of highly-rated restaurants has sprung up, including several endowed with one or more stars in the red Michelin guide – often outside the main urban centres and near the wine districts.

For tbose keen on history and culture, there are several larger centres in Burgundy snch as Dijon itself, the regional capital with its cathedral, fine arts museum, dncal palace and medieval centre, as well ss a concentration of hotels and restaurants which can make it a useful base for touring.

At least as impressive is the smaller town of Beaume to the south, long Dijon's rival and home to the Dukes of Burgundy until they shifted permanently to Dijon in the 14th century. The centrepiece is the Hospital, in use until the 1970s, with an extraordinary medieval great hall and hrightly coloured, patterned tiles on the steep rooftops of the buildings.

To the west of Dijon lies Vézelay, hilltop site of a monastery from the ninth century and now home to a strikingly simple but monolithic basilica surrounded by medieval buildings. Further towards the north-western edge of the region are Auxerre and Sens, both impressive historic towns.

To the north-west of Dijon is Fontenay, with a well-preserved and restored 12th century Cistercian monastery. To the south of the region is Cluny, with its abbey, still substantial despite extensive destruction from 1790 after the French Revolution.

Burgundy claims to be the most important boating region in France, with 1,200km of waterways

Yet at least as fascinating are many of the smaller and less visited centres in Burgundy, such as Gevrey-Chambertin with its ancient church and castle. Or there is Avallon, perched on a hilltop and relatively unspoilt, with its largely 11th century church of St Lazarus, and its ramparts all but intact, giving fine views over the area.

In other towns, a number of cultural festivals have developed over the past few years, including the "Chalon dans la rue" at Chalon, which has an annual carnival – this year held in late July – designed to attract actors and artists.

The principal centres in Burgundy are relatively well connected by train, with TGV services shuttling passengers rapidly from Paris. But a car – indispensable to see the countryside, with its variety of hills, forests and plateaux – can also prove a satisfying way to travel.

For a region through which runs the Yonne, the Saône and its tributary, the Seille – and also boasts the source of the River Seine that, further downstream, runs through Paris – Burgundy offers plenty of scope for water-based holidays. It claims to be the most important boating region in France, with 1,200km of waterways. That has helped explain its popularity with Dutch holidaymakers.

Aside from the more conventional cruise boats, the region is bizarrely currently planning the development of tourist facilities in the Morvan mountains for the international meeting of organisations involved in the long-standing practice of floating wood downstream. A special wood "train" will be floated through the Morvan to Clamecy in the north in May.

Burgundy already has an "archéodrome", with a series of events and sites focused on its ancient past. This year officials are highlighting the new FFr230m national museum of archaeology, which is scheduled to open on July 14.

Based on Mont-Beuvray in the Morvan Mountains, location of the election of Vercingetorix as chief of the Gauls in 52BC and subject to archaeological digs over the past decade, it is designed to reflect Celtic civilisation throughout Europe.

During the spring and autumn, Burgundy is the focus of many visitors taking advantage of long weekends and short, week-long breaks. But in the summer, the peak period, the regional tourism committee believes that the region is seen too much as a transit point for people travelling elsewhere in France and beyond.

Its new strategy is to encourage visitors to stay longer, and to develop attractions and marketing techniques that bring in new types of tourist: notably younger people and families with children. "Until now we have had a relatively aged clientele: upper middle class, educated, quite well off visitors," says one official.

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ **TODAY**
Abbey Natl Treas Serv 9% Bd '04 Lire450000.0
Acatos & Hutcheson 5.5p
Banco Bilbao V Pta60
Baring Tribune Inv Tst 5.05p
BP America 10½% Nts '98 C$105.0
Burlington 0.6p
Glaxo 10p
Grand Metropolitan 8.8p
HSBC Hlds 9⅞% Sb Bd '18 £987.50
Kobe Steel FRN '98 Y68670.0
Leo 1 B FRN '35 £2192.21
Leo 2 B FRN '32 £219.22
Lothbury Fund. No.1 A1 FRN '31 £1319.88
Do Class A2 FRN '31 £1718.78
Do Class B FRN '31 £1914.04
M & G Recovery Inv Tst 1p
Do Package Units 1p
Nationwide Bldg Scty Nts '95 £81027.40
Nokia FMk10
Royal Bk Can Govt Stlg Fd 1p
State Elect Commission Vic 11% Nts '02 A$110.0
Unilever Australia 12% Bd '98 A$120.0
Warnford Inv 2.75p
Willis Corroon $0.1674

■ **TOMORROW**
Abbey Natl First Cap Sb FRN '03 $29.39
Asian Dvl Bank *Bd* '01 £110.0
Bradstock Grp 4.1p
Conversion 10% £5.0
Collateralised Mort (No.11) FRN '28 £209.58
Flying Flowers 2p
Goodhead 7% 3.5p
Govett $0.18
Islington 12.65% Red '07 £6.325

■ **WEDNESDAY APRIL 12**
Brightstone Props 1.8p
David Lloyd Leisure 2.2p
Enterprise Oil 11⅝% Un Ln '16 £5.8125
Fairway 2.4p
First Choice Holidays 2.45p
Lex Service 8.4p
Lydenburg Platinum R0.49
Porvair 3.2p
Soundtracs 1.58p
USDC Inv Tst 3.25p

■ **THURSDAY APRIL 13**
Alumsac Grp 2.3p
Bertam Hldgs 1p
Brad & Bingley Bldg Scty FRN '97 £160.71
Do FRN '98 £161.82
Budgens 0.3p
BWD Secs 2.5p
Centex $0.05
City Merchts High Yield Tst 3p
Drayton Far Eastern Tst 0.55p
Enterprise Oil Sb FRN '99 £37584.25
Gardiner Grp 0.55p
Great Universal Stores $0.585
Hanson $0.2919
Heiton Hldgs IR0.8p
Henlys 6p
HK & Shanghai Banking FRN $81.25
Motorola $0.10
MR Data Mngmt Grp 2.076p
Natl Australia Bank Sb FRN $304.60
Pizza Express 0.6p
PWS Hldgs 0.1p
RJB Mining 7.3p
Treasury 9% '08 £4.50
Treatt 3.4p
Unitas VR Sb Nts 2000 $171.88

■ **FRIDAY APRIL 14**
Australia 9½% Ln '12 £237.50
Chrysler $0.40
Continental Assets Tst 3p
Grand Metropolitan $0.6884
Johnson Fry Euro Utilities Tst 2.4p
Johnson Fry Second Utilities Tst 2.44p
Johnson Fry Utilities Tst 1.72p
Morgan (JP) $0.75
St. *Modwen* Props 1.1p
Waterman Partnership 0.5p

■ **SATURDAY APRIL 15**
Alexander & Alex Serv 11% Sb Db '07 $5.50
Am Brands 12½% Un Ln '09 6.25p
Armitage Brothers 2.9p
BCE C$0.68
Cornwell Parker 0.3p
Do 'A Non Vtg 0.3p
CRH 5% IR1.925p
Eldridge, Pope 6¼% Irrd Un Ln £3.125
Do 7½% Irrd Un Ln £3.75
Finland 11½% Ln '09 £287.50
Gooda Durrant 0.875p
Govett Strategic Inv Tst 9⅞% Db '17 £4.9375
Lazard High *Income* Tst 1.6p
Manders 5% 1.75p
Merton (Lon Borough) 11¼% Red '17 £5.625
Met Water Board 3% Db £1.50
Occidental Petroleum $0.25
Pacific Gas & Electric $0.49
Richards 4% 1.4p
Do 5½% 1.44375p
Wereldhave Prop 9.5% Db '15 £4.75
Do 10.75% Db '15 £5.375

■ **SUNDAY APRIL 16**
Cementone 1p
Swansea 13¾% Red '06 £6.875
Treasury IL '20 £2.1801

UK COMPANIES

■ **TODAY**
COMPANY MEETINGS:
Drayton Far Eastern Tst, 11, Devonshire Square, E.C., 12.00
Hiscox Select Insurance, 52, Leadenhall Street, E.C., 10.30
RPS Grp, *Moor House, 119,* London Wall, E.C., 10.00
USDC Inv Tst, *Alban Gate,* 125, London Wall, E.C., 2.30
BOARD MEETINGS:
Finals:
Alpha Airports
Amey
Bilton
Britannia Grp
British Dredging
Crean (James)
Dinkie Heel
Greenacre
Moss Bros
Olives Property
Severfield-Reeve
Interims:
Halstead (James)

■ **TOMORROW**
COMPANY MEETINGS:
BICC, Hyde Park Hotel, 66, Knightsbridge, S.W., 12.00
Brandon Hire, Price *Waterhouse, Great George* Street, Bristol, 11.00
Capita Grp, Hill Samuel, *Wood* Street, E.C., 10.00
Emerald Energy, *Halkin Hotel,* Halkin Street, Belgravia, S.W., 11.00
Exco, 119, Cannon Street, E.C., 10.00
Gartmore, Trinity House, Tower Hill, E.C., 10.00
Heywood Williams, Alfred McAlpine Stadium, Stadium Way, Huddersfield, 12.00
Mersey Docks & Harbour, Merseyside Maritime Museum, Albert Dock, Liverpool, 12.00
Persimmon, *Savoy Hotel,* Strand, W.C., 12.00
Porvair, *King's Lynn Town* Hall, King's Lynn, Norfolk, 12.00
Reuters, Stationers' Hall, Ave *Maria Lane, E.C.,*
Second Market Investment, 13, Southampton Place, W.C., 10.00
Wyevale Garden Centres, Green Dragon Hotel, Hereford, 10.30
BOARD MEETINGS:
Finals:
Automotive Products
Bodycote Intl
Cobham
Dewhirst
Friendly Hotels
HCG Lloyd's Inv Tst
Henderson Highland Tst
New Ireland Hldgs
Savoy Hotel
Shorco
Tarmac
Tesco
Tie Rack
Yule Catto
Interims:
Villiers

■ **WEDNESDAY APRIL 12**
COMPANY MEETINGS:
Beta Global Emerging *Markets Inv Tst*, *3,* Bolt *Court,* Fleet Street, E.C., 11.45
Boddington Grp, *The Village* Hotel, Warrington, 11.45
British Vita, Training & Development Centre, Green Street, Middleton, Manchester, 2.45
Central European Growth, 1, Cabot Square, E., 12.45
Foreign & Colonial Inv Tst, The Brewery, Chiswell Street, E.C., 12.00
Kershaw (A), 6, Connaught Place, W., 12.00
Roxboro Grp, *Financial* Dynamics, 30, Furnival Street, E.C., 11.30
United Carriers Grp, Diamond *Centre, Irthling Borough,* Northamptonshire, 10.30
BOARD MEETINGS:
Finals:
Alexandra Workwear
Bloomsbury Publishing
Chelsfield
Forte
Goldsmiths
Jerome (S)
Martin Intl
New City & Commercial
Nurdin & Peacock
RMC
Tudor
Interims:
AG Hldgs
Beckman (A)
Eurowein
Smiths Inds

■ **THURSDAY APRIL 13**
COMPANY MEETINGS:
British Petroleum, Barbican *Centre, Barbican,* E.C., 11.00
English & Scottish Investors, *Gartmore House,* 16-18, Monument Street, E.C., 12.00
Fife Indmar, 115, *Hanover* Street, Edinburgh, 12.00
BOARD MEETINGS:
Finals:
Ashley (Laura)
Chepstow Racecourse
Hunting
Interims:
Cradley Grp

Company meetings are annual general meetings unless otherwise stated.
Please note: Reports and accounts are not normally available until six weeks after the board meeting to approve the results.

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Apr 7 / Sch)

BELGIUM/LUXEMBOURG (Apr 7 / Frs.)

CZECH REP (Apr 7 / Koruna)

DENMARK (Apr 7 / Kr)

FINLAND (Apr 7 / Mkk)

FRANCE (Apr 7 / Frs.)

GERMANY (Apr 7 / Dm.)

GREECE (Apr 7 / Drachma)

ITALY (Apr 7 / Lira)

NETHERLANDS (Apr 7 / Fls.)

NORWAY (Apr 7 / Kroner)

POLAND (Apr 6 / Zloty)

PORTUGAL (Apr 7 / Escudo)

SPAIN (Apr 7 / Pts.)

SWEDEN (Apr 7 / Kronor)

SWITZERLAND (Apr 7 / Frs.)

TURKEY (Apr 7 / Tk.Lira)

PACIFIC

JAPAN (Apr 7 / Yen)

AUSTRALIA (Apr 7 / Aus$)

HONG KONG (Apr 7 / H.K.$)

INDONESIA (Apr 7 / Rupiah)

MALAYSIA (Apr 7 / MYR)

NEW ZEALAND (Apr 7 / NZ $)

SINGAPORE (Apr 7 / S$)

SOUTH KOREA (Apr 7 / Won)

TAIWAN (Apr 7 / TW $)

THAILAND (Apr 7 / Baht)

AFRICA

SOUTH AFRICA (Apr 7 / Rand)

NORTH AMERICA

CANADA

TORONTO (Apr 7 / Can $)
4 pm close

MONTREAL (Apr 7 / Can $)
4 pm close

INDICES

	Apr 7	Apr 6	Apr 5	1995 High		1995 Low	
Argentina							
General (29/12/77)	13759.28	13971.55	13840.88	16931.10	2/1	9831.09	9/3
Australia							
All Ordinaries(1/1/80)	1983.4	1980.3	1982.4	1983.40	7/4	1823.30	8/2
All Mining(1/1/80)	913.4	916.4	913.4	927.30	2/1	795.30	8/2
Austria							
Credit Aktien(30/12/84)	357.79	356.81	354.64	395.42	2/1	350.32	30/3
Traded Index(2/1/91)	958.33	954.05	948.41	1056.31	3/1	934.83	30/3
Belgium							
BEL20 (1/1/91)	1363.24	1341.46	1326.57	1381.22	6/1	1271.53	9/3
Brazil							
Bovespa (29/12/83)	32030.0	32548.0	31804.0	43180.80	2/1	21382.80	9/3
Canada							
Metals Minls♦(1975)	4222.43	4257.81	4217.82	4326.07	16/1	3806.63	1/3
Composite♦ (1975)	4264.90	4284.40	4285.10	4319.48	30/3	3991.41	30/1
Portfolio§§ (4/1/83)	2124.48	2129.06	2123.71	2142.81	24/3	1948.30	31/1
Chile							
IPGA Gen (31/12/80)	5379.8	5376.7	5365.3	5518.21	17/1	4576.80	9/3
Denmark							
CopenhagenSE(3/1/83)	333.55	335.71	337.58	357.07	13/2	330.01	29/3
Finland							
HEX General(28/12/90)	1663.1	1675.3	1661.4	1940.30	10/1	1558.30	29/3
France							
SBF 250 (31/12/90)	1246.05	1242.05	1233.40	1281.23	5/1	1153.14	10/3
CAC 40(31/12/87)	1900.36	1890.16	1872.92	1901.79	4/1	1721.80	13/3
Germany							
FAZ Aktien(31/12/58)	736.56	731.75	728.29	795.81	16/2	708.87	30/3
Commerzbank(1/12/53)	2102.0	2089.1	2077.7	2268.00	16/2	2018.70	30/3
DAX (30/12/87)‡	1981.88	1979.27	1969.84	2136.04	15/2	1910.98	28/3
Greece							
Athens SE(31/12/80)	821.68	815.94	823.40	888.22	4/1	787.15	16/3
Hong Kong							
Hang Seng(31/7/64)	8470.28	8418.10	(c)	8827.93	28/3	6967.93	23/1
India							
BSE Sens.(1979)	3472.06	3484.25	3439.94	3932.08	2/1	3233.31	22/2
Indonesia							
Jakarta Comp.(10/8/82)	428.99	430.85	428.55	481.22	6/1	422.13	24/3
Ireland							
ISEQ Overall(4/1/88)	1871.38	1865.01	1856.89	1902.77	10/2	1813.59	23/1
Italy							
Banca Comm Ital (1972)	595.94	595.56	555.16	680.54	10/2	587.99	23/3
MIB General (2/1/95)	941.0	941.0	940.0	1078.00	10/2	929.00	23/3
Japan							
Nikkei 225 (16/5/49)	15719.50	15815.87	15862.49	19723.06	2/1	15381.29	3/4
Nikkei 300 (1/10/82)	234.71	235.85	236.95	287.17	2/1	228.05	24/3
Topix (4/1/68)	1268.84	1274.43	1279.15	1559.09	2/1	1238.87	24/3
2nd Section (4/1/68)	1668.75	1676.13	1688.38	2133.88	3/1	1601.53	24/3
Malaysia							
KLSE Comp.(4/4/86)	967.29	978.72	998.79	998.79	5/4	840.87	24/1
Mexico							
IPC (Nov 1978)	(u)	1914.76	1919.09	2784.25	2/1	1108.95	5/4
Netherland							
CBS TtlRtnGen(End 83)	433.8	430.8	429.4	447.00	10/2	422.90	23/3
CBS All Shr (End 83)	272.0	273.1	269.3	280.40	10/2	265.28	23/3
New Zealand							
Cap. 40 (1/7/86)	2071.96	2070.39	2061.44	2071.96	7/4	1901.43	5/1
Norway							
Oslo SE(Ind)(2/1/83)	1101.71	1104.52	1085.36	1152.86	8/2	1036.80	10/3
Philippines							
Manila Comp (2/1/85)	2443.30	2446.10	2410.35	2805.28	3/1	2248.39	27/3
Portugal							
BTA (1977)	2742.9	2742.2	2744.2	2911.80	9/1	2682.40	28/1
Singapore							
SES All-S'pore(2/4/75)	497.88	501.61	502.77	535.08	5/1	472.90	23/1
South Africa							
JSE Gold (28/9/78)	1553.8♥	1582.7	1572.8	2023.00	2/1	1357.30	27/3
JSE Ind. (28/9/78)	6696.3♥	6691.6	6706.2	6984.40	2/1	6222.00	31/1
South Korea							
KoreaCompEx(4/1/80)**	914.30	905.78	(c)	1027.32	2/1	865.88	28/2
Spain							
Madrid SE (30/12/85)	275.21	273.64	275.01	290.08	6/2	264.08	23/3
Sweden							
AffarsvardsGen (1/2/37)	1510.5	1506.2	1492.3	1583.80	14/2	1439.80	29/3
Switzerland							
Swiss Bk Ind (31/12/58)	1196.80	1196.42	1194.69	1257.80	14/2	1174.83	13/3
SBC General (1/4/87)	896.97	895.16	890.38	929.91	4/1	870.53	13/3
Taiwan							
WeightedPr.(30/6/66)**	6518.83	6575.71	(c)	7124.66	3/1	6187.79	24/1
Thailand							
Bangkok SET (30/4/75)	1177.04	(c)	1184.65	1373.85	5/1	1135.89	16/3
Turkey							
Istanbul Cap.(Jan 1986)	44622.0	44293.7	43483.4	44622.88	7/4	24644.31	23/1
WORLD							
MS Capital Intl (1/1/70)§	648.7*	647.1	644.2	648.70	7/4	598.21	23/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1281.80	1277.00	1267.84	1348.30	10/2	1222.41	13/3
Euro Top-100 (26/6/90)	1170.07	1167.13	1164.58	1202.67	10/2	1114.54	10/3
JCapelDrgns (31/12/88)	(u)	305.24	306.75	369.48	29/3	282.07	23/1
Barings Emerg.(7/1/92)	137.09	136.40	135.88	158.97	2/1	117.15	10/3

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
CAC-40 (200 x index)							
Mar	1900.0	1912.0	+10.0	1916.0	1894.0	22,245	24,960
Apr	1899.5	1908.5	+10.0	1909.0	1896.5	693	9,968
DAX							
Jun	1980.50	1985.00	-5.0	1997.0	1980.0	13,163	108,610
Sep	2006.50	2008.00	-5.0	2013.0	2006.5	64	2,345
OMX							
Apr	1172.00	1171.50	+1.50	1176.50	1170.00	7,093	20,658
May	1183.50	1183.00	+0.50	1183.50	1162.00	450	1,489
SOFFEX							
Apr	2555.0	2560.0	+3.5	2565.0	2555.0	4,534	18,571
Jun	-	2526.5	-	-	-	31	162
S&P 500							
Jun	509.60	508.65	-0.95	511.00	508.65	49,685	189,435
Sep	514.90	513.00	-0.95	515.15	513.00	644	9,616
Nikkei 225							
Jun	15740.0	15770.0	-30.0	15880.0	15670.0	24,268	125,455
Sep	15940.0	15900.0	-100.0	15940.0	15900.0	62	89

Open interest figures for previous day.

** Sat Apr 1 : Taiwan Weighted Price 6573.54; Korea Comp Ex 934.09. Base values of all indices are 100 except Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 20 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours Index: Apr 7 - 1978.71 +2.10.

US INDICES

Dow Jones	Apr 7	Apr 6	Apr 5	1995 High	1995 Low	Since compilation High	Since compilation Low
Industrials	4192.62	4205.41	4200.57	4205.41 (6/4)	3832.08 (30/1)	4205.41 (6/4/95)	41.22 (2/7/32)
Home Bonds	98.58	98.43	98.61	98.61 (5/4)	93.83 (3/1)	108.77 (18/10/93)	54.99 (1/10/87)
Transport	1644.24	1637.81	1628.99	1656.07 (30/3)	1473.19 (3/1)	1862.29 (2/2/94)	12.32 (8/7/32)
Utilities	194.04	193.12	193.71	196.74 (8/3)	183.09 (3/1)	256.46 (21/6/93)	10.50 (8/4/32)

DJ Ind. Day's high 4226.86 (4230.31) Low 4154.29 (4178.13) (Theoretical)♦
Day's high 4211.39 (4224.09) Low 4169.45 (4187.81) (Actual)♦

Standard and Poors	Apr 7	Apr 6	Apr 5	1995 High	1995 Low	Since compilation High	Since compilation Low
Composite ‡	506.42	506.08	505.57	506.42 (7/4)	459.11 (3/1)	506.42 (7/4/95)	4.40 (1/6/32)
Industrials♥	600.38	600.45	601.01	601.01 (6/4)	546.29 (3/1)	601.01 (6/4/95)	3.62 (21/6/32)
Financial	47.81	47.71	47.03	47.81 (7/4)	41.41 (2/1)	48.40 (28/9/93)	8.64 (1/10/74)
NYSE Comp.	273.73	273.78	273.48	273.78 (6/4)	250.73 (3/1)	273.78 (6/4/95)	4.46 (25/4/42)
Amex Mkt Val	469.35	465.87	467.85	469.35 (7/4)	433.12 (6/1)	487.89 (2/2/94)	29.31 (9/12/72)
NASDAQ Cmp	814.69	813.80	816.32	828.14 (28/3)	743.58 (3/1)	828.14 (28/3/95)	54.87 (31/10/72)

■ RATIOS

	Mar 31	Mar 24	Mar 17	Year ago
Dow Jones Ind. Div. Yield	2.84	2.85	2.89	2.81
	Apr 5	Mar 29	Mar 22	Year ago
S & P Ind. Div. yield	2.26	2.27	2.33	2.51
S & P Ind. P/E ratio	18.11	18.05	17.60	23.55

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Seagram	3,455,800	26⅝	-1⅜
Du Pont	7,141,000	62⅛	-2⅛
Chilgener	5,089,900	27	+1
Asia Pulp	4,555,000	11⅛	+⅛
Compaq	4,416,600	31⅜	-1
K Mart	3,754,100	15⅛	+½
Natl Medical	3,667,000	16⅛	+⅛
Telefonos	3,344,400	30⅛	+⅛
RJR Nabisco	3,255,300	6	——
Chase Man	3,250,400	42⅛	+1

■ TRADING ACTIVITY

● Volume (million)	Apr 7	Apr 7	Apr 5
New York SE	317.281	322.600	313.131
Amex	17.758	18.957	24.425
NASDAQ	(u)	320.369	323.096
NYSE			
Issues Traded	2,947	2,848	2,965
Rises	998	1,124	1,163
Falls	1,131	861	978
Unchanged	818	843	804
New Highs	78	93	86
New Lows	10	14	13

† Correction. * Calculated at 13.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

Prices supplied by Telekurs

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1995, except Toronto & Montreal (daily). # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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■ TOKYO - MOST ACTIVE STOCKS: Friday, April 7, 1995

	Stocks Traded	Closing Prices	Change on day
Fudo Const	9.4m	894	+30
Sumitomo Const	3.5m	668	+10
Mitsui Min	3.5m	320	-5
Sumitomo Mtl	3.1m	757	+19
Matsushita	2.9m	1380	+10
Nippon Steel	2.7m	326	+1
NKK	2.3m	227	-2
Tsumura & Co	2.3m	1320	+50
Mitsubishi Hvy	2.2m	618	-1
Hitachi	1.8m	850	-10

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CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Apr 7		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	15.6183	+0.0404	099 - 266	15.6568	15.4888	15.5977	1.8	15.5598	1.8	-	-	108.0
Belgium	(BFr)	45.6051	+0.0908	720 - 381	45.6840	45.2170	45.5801	1.2	45.4501	1.4	44.9201	1.5	110.6
Denmark	(DKr)	8.7318	-0.0005	252 - 383	8.7479	8.6754	8.7374	-0.8	8.7459	-0.6	8.7311	0.0	110.5
Finland	(FM)	6.8337	-0.0247	280 - 394	6.8810	6.7980	-	-	-	-	-	-	87.8
France	(FFr)	7.7172	+0.0007	139 - 205	7.7289	7.6817	7.7279	-1.7	7.7402	-1.2	7.697	0.3	111.4
Germany	(DM)	2.2191	+0.0065	178 - 203	2.2270	2.1985	2.2157	1.8	2.2084	1.9	2.1657	2.4	113.6
Greece	(Dr)	361.209	+0.007	036 - 379	362.955	358.667	-	-	-	-	-	-	69.0
Ireland	(I£)	0.9942	+0.001	929 - 955	0.9977	0.9917	0.994	0.2	0.9938	0.2	0.9942	0.0	95.9
Italy	(L)	2734.02	-21.86	311 - 492	2762.89	2732.61	2743.57	-4.2	2764.42	-4.4	2847.77	-4.2	64.3
Luxembourg	(LFr)	45.6051	+0.0908	720 - 381	45.6840	45.2170	45.5801	1.2	45.4501	1.4	44.9201	1.5	110.6
Netherlands	(Fl)	2.4841	+0.0054	819 - 863	2.4904	2.4844	2.4805	1.7	2.4729	1.8	2.4279	2.3	110.6
Norway	(NKr)	9.9546	+0.0139	484 - 614	9.9898	9.8578	9.9445	1.2	9.9242	1.2	9.818	1.4	99.6
Portugal	(Es)	234.352	+0.089	053 - 651	234.672	233.265	235.187	-4.3	236.977	-4.5	-	-	97.0
Spain	(Pta)	199.444	-2.593	194 - 695	202.108	198.830	199.884	-2.6	200.899	-2.9	205.098	-2.8	79.0
Sweden	(SKr)	11.7996	-0.094	886 - 105	11.9149	11.7289	11.8017	-0.2	11.8058	-0.2	11.826	-0.2	76.6
Switzerland	(SFr)	1.8222	+0.0083	209 - 234	1.8289	1.8032	1.8175	3.1	1.8077	3.2	1.7536	3.8	115.2
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	84.6
Ecu	-	1.2068	-0.0013	060 - 075	1.2096	1.2004	1.2067	0.1	1.2069	0.0	1.2017	0.4	-
SDR†	-	1.022800	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6061	-0.0021	056 - 066	1.6122	1.6036	-	-	-	-	-	-	-
Brazil	(R$)	1.4437	+0.0041	425 - 449	1.4492	1.4374	-	-	-	-	-	-	-
Canada	(C$)	2.2357	+0.0013	347 - 366	2.2413	2.2274	2.2391	-1.8	2.2449	-1.6	2.2902	-2.4	81.2
Mexico	(New Peso)	10.2273	-0.1714	846 - 700	10.7339	10.1846	-	-	-	-	-	-	-
USA	($)	1.6068	-0.0017	064 - 072	1.6130	1.6042	1.6067	0.1	1.6056	0.3	1.5952	0.7	86.3
Pacific/Middle East/Africa													
Australia	(A$)	2.1674	-0.0028	661 - 687	2.1687	2.1659	2.1702	-1.5	2.1745	-1.3	2.1941	-1.2	79.9
Hong Kong	(HK$)	12.4243	-0.0122	204 - 282	12.4724	12.4050	12.4237	0.1	12.4245	0.0	12.4178	0.1	-
India	(Rs)	50.4610	-0.0759	410 - 822	50.6840	50.3620	-	-	-	-	-	-	-
Israel	(Shk)	4.7444	-0.0093	392 - 496	4.7567	4.7060	-	-	-	-	-	-	-
Japan	(Y)	135.220	-2.101	114 - 326	137.230	134.880	134.65	0.1	133.5	5.1	127.39	5.8	170.0
Malaysia	(M$)	4.0082	-0.0037	044 - 080	4.0193	3.9612	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.4221	-0.0196	196 - 245	2.4245	2.4193	2.428	-2.9	2.4389	-2.5	2.4527	-1.3	98.8
Philippines	(Peso)	41.8895	+0.3108	985 - 801	41.9801	41.7985	-	-	-	-	-	-	-
Saudi Arabia	(SR)	6.0264	-0.0059	245 - 283	6.0489	6.0167	-	-	-	-	-	-	-
Singapore	(S$)	2.2557	-0.0049	543 - 570	2.2634	2.2520	-	-	-	-	-	-	-
South Africa	(R)	5.7685	-0.0055	659 - 711	5.7950	0.7583	-	-	-	-	-	-	-
South Korea	(Won)	1238.11	-5.37	564 - 658	1242.77	1234.35	-	-	-	-	-	-	-
Taiwan	(T$)	41.2656	-0.3692	275 - 034	41.7050	41.2289	-	-	-	-	-	-	-
Thailand	(Bt)	39.4951	-0.0567	692 - 210	39.6980	39.4420	-	-	-	-	-	-	-

†SDR rates per £ for Apr 6. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

[illegible]

†SDR rate per $ for Apr 6. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Apr 6. Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

[illegible]

EURO CURRENCY INTEREST RATES

[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

[illegible]

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

[illegible]

All Open interest figs. are for previous day

RIGHTS OFFERS

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CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Apr 7		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	19.14	16.92	4.865	2.179	5994	5.446	21.83	513.7	437.2	25.85	3.995	2.193	4.902	3.521	296.4	2.646
Denmark	(DKr)	52.23	10	8.838	2.541	1.138	3131	2.845	11.40	268.3	228.4	13.50	2.087	1.145	2.561	1.839	154.8	1.382
France	(FFr)	59.10	11.32	10	2.875	1.288	3543	3.219	12.90	303.6	258.4	15.28	2.361	1.296	2.897	2.081	175.2	1.564
Germany	(DM)	20.55	3.935	3.478	1	0.448	1232	1.119	4.486	105.6	89.88	5.313	0.821	0.451	1.008	0.724	60.93	0.544
Ireland	(I£)	45.89	0.795	7.764	2.232	1	2751	2.499	10.02	235.7	200.6	11.86	1.833	1.006	2.249	1.610	136.0	1.214
Italy	(L)	1.668	0.319	0.282	0.081	0.036	100.	0.091	0.364	0.570	7.293	0.431	0.067	0.037	0.082	0.059	4.945	0.044
Netherlands	(Fl)	18.36	3.515	3.107	0.893	0.400	1101	1	4.006	94.32	80.27	4.748	0.733	0.403	0.900	0.647	54.43	0.486
Norway	(NKr)	45.82	8.771	7.752	2.229	0.998	2746	2.495	10	235.4	200.3	11.84	1.830	1.005	2.246	1.613	135.8	1.212
Portugal	(Es)	19.47	3.727	3.294	0.947	0.424	1167	1.060	4.249	100.	85.10	5.032	0.778	0.427	0.954	0.685	57.70	0.515
Spain	(Pta)	22.87	4.379	3.870	1.113	0.498	1371	1.248	4.992	117.5	100.	5.913	0.914	0.502	1.121	0.805	67.80	0.606
Sweden	(SKr)	38.69	7.406	6.545	1.882	0.843	2319	2.107	8.444	198.7	169.1	10	1.545	0.848	1.897	1.362	114.7	1.024
Switzerland	(SFr)	25.03	4.793	4.235	1.218	0.546	1501	1.363	5.464	128.6	109.4	6.471	1	0.549	1.227	0.881	74.20	0.662
UK	(£)	45.61	8.732	7.717	2.219	0.994	2734	2.484	9.855	234.3	199.4	11.79	1.822	1	2.238	1.606	135.2	1.207
Canada	(C$)	20.40	3.905	3.451	0.992	0.445	1223	1.111	4.452	104.8	89.18	5.273	0.810	0.447	1	0.710	60.47	0.540
US	($)	28.40	5.437	4.805	1.382	0.618	1702	1.547	8.196	145.9	124.2	7.341	1.134	0.623	1.392	1	84.18	0.752
Japan	(Y)	33.74	6.459	5.708	1.641	0.735	2022	1.837	7.363	173.3	147.6	8.720	1.348	0.740	1.654	1.188	100.	0.893
Ecu		37.79	7.234	6.394	1.838	0.824	2265	2.058	8.248	194.1	165.2	9.768	1.510	0.829	1.853	1.331	112.0	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	0.7304	0.7288	-0.0009	0.7341	0.7237	28,230	55,898
Sep	0.7292	0.7319	-0.0009	0.7331	0.7270	78	2,208
Dec	-	0.7360	-0.0010	0.7361	0.7320	8	364

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	0.8907	0.8929	+0.0007	0.8985	0.8835	14,745	27,711
Sep	0.9025	0.8989	+0.0007	0.9025	0.8906	112	2,488
Dec	-	0.9059	+0.0007	0.9060	0.8980	29	183

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	1.1842	1.2046	+0.0217	1.2046	1.1815	24,886	68,849
Sep	1.2060	1.2193	+0.0219	1.2193	1.2060	378	2,873
Dec	1.2280	1.2348	+0.0221	1.2348	1.2265	37	386

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	1.6072	1.6112	+0.0068	1.6280	1.5970	2,408	22,765
Sep	1.6040	1.6086	+0.0068	1.6220	1.5980	3	210
Dec	-	1.6058	+0.0068	1.6180	1.5950	3	63

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Apr	CALLS May	CALLS Jun	PUTS Apr	PUTS May	PUTS Jun
1.525	8.85	9.00	9.32	-	0.17	0.65
1.550	6.41	6.85	7.42	-	0.45	1.14
1.575	3.96	4.67	5.66	0.30	0.96	1.84
1.600	1.61	3.22	4.14	1.44	1.79	2.75
1.625	0.45	2.01	2.91	3.48	2.97	3.99
1.650	0.03	1.14	2.02	5.89	4.58	5.51

Previous day's vol., Calls 4,618 Puts 10,692 . Prev. day's open int., Calls 236,432 Puts 324,858

■ Pound in New York

Apr 7	Close	Prev. close
£ spot	1.6155	1.6075
1 mth	1.6154	1.6073
3 mth	1.6143	1.6062
1 yr	1.6043	1.5980

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Emerging Markets page in today's edition.

BANK RETURN

BANKING DEPARTMENT	Wednesday April 5, 1995	Increase or decrease for week
Liabilities	£	£
Capital	14,553,000	
Public deposits	1,125,261,651	-17,848,768
Bankers deposits	1,828,920,866	+122,469,069
Reserve and other accounts	3,203,585,470	-10,107,283
6,172,320,967 +94,513,018 Assets		
Government securities	1,197,733,456	+18,465,000
Advance and other accounts	2,339,327,613	+604,972,007
Premises, equipment and other secs	2,627,357,024	-531,838,171
Notes	7,716,227	+2,910,879
Coin	186,667	-1,697
	0,172,320,967	+94,513,010
ISSUE DEPARTMENT		
Liabilities		
Notes in circulation	18,542,283,772	+157,084,120
Notes in Banking Department	7,716,226	+2,915,880
	18,550,000,000	+160,000,000
Assets		
Other Government securities	16,637,670,092	-6,828,965
Other Securities	1,912,329,906	+166,828,965
	19,550,000,000	+160,000,000

UK INTEREST RATES

LONDON MONEY RATES

Apr 7	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	8 - 4½	5¾ - 5⅛	6⅛ - 6⅜	6⅝ - 6½	7⅛ - 6⅞	7⅝ - 7½
Sterling CDs	-	-	6⅛ - 6⅜	6⅞ - 6⅛	6⅜ - 6⅞	7⅞ - 7⅜
Treasury Bills	-	-	6⅛ - 5⅞	6¼ - 6⅛	-	-
Bank Bills	-	-	6⅛ - 5⅞	6⅜ - 6¼	6⅛ - 6⅝	-
Local authority deps.	6⅛ - 6⅛	5⅞ - 5⅞	6⅛ - 6⅛	6⅞ - 6⅛	7⅛ - 6⅞	7⅞ - 7⅝
Discount Market deps	5¾ - 4½	5½ - 5⅛	-	-	-	-

UK clearing bank base lending rate 6¾ per cent from February 2, 1995

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	3	5¼	5¾	6	6¼

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc.
Ave. tender rate of discount 6.1134pc. ECGD fixed rate Stg. Export Finance. Make up day Mar 31, 1995. Agreed rate for period Apr 26, 1995 to May 23, 1995, Schemes II & III 7.98pc. Reference rate for period Mar 1, 1995 to Mar 31, 1995, Schemes IV & V 6.713pc. Finance House Base Rate 7pc from Apr 1, 1995

BANK OF ENGLAND TREASURY BILL TENDER

	Apr 7	Mar 31		Apr 7	Mar 31
Bills on offer	£900m	£900m	Top accepted rate	6.1589%	6.1169%
Total of applications	£3834m	£3029m	Ave. rate of discount	6.1348%	6.1134%
Total allocated	£900m	£900m	Average yield	6.2301%	6.2080%
Min. accepted bid	£98.485	£98.475	Offer at next tender	£900m	£900m
Allotment at min. level	81%	55%	Min. accept. bid 182 days	-	-

BASE LENDING RATES

	%		%		%
Adam & Company	0.75	Duncan Lawrie	0.75	* Roxburghe Guarantee Corporation Ltd is no longer authorised as a banking institution.	10
Allied Trust Bank	6.75	Exeter Bank Limited	7.75	Royal Bk of Scotland	0.75
AIB Bank	6.75	Financial & Gen Bank	7.80		
●Henry Ansbacher	6.75	●Robert Fleming & Co	6.75		
Bank of Baroda	0.75	Girobank	6.75		

[illegible]

● Members of London Investment Banking Association
* In administration

FT GOLD MINES INDEX

	Apr 7	% chg since 30/12/94	Apr 6	Mkt Cap $m	% of Gold Mines	Gross div yield %	52 week High	52 week Low
Gold Mines Index (34)	1986.79	+1.1	2016.42	49.48	100.00	2.13	2337.98	1837.81
■ Regional Indices								
Africa (16)	2840.80	-11.0	2885.41	15.09	30.53	4.80	3711.87	2304.48
Australasia (7)	2422.16	-1.3	2445.45	6.22	12.58	1.75	2951.49	1788.20
North America (11)	1691.33	+9.5	1702.71	28.12	56.89	0.78	1911.21	1348.10

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Figures in brackets show number of companies. Basis US Dollars. Base Values: 1000.00 31/12/92.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1995 High	1995 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
150	F.P.	536.1	171	154	Albright & Wilson	171	+5½	R6.0	1.5	4.4	19.0
-	F.P.	17.6	201	170	Beale	171		H5.9	-	4.3	-
-	F.P.	4.82	149	113	Brit Aerospace Uts	149		-	-	-	-
-	F.P.	34.9	161	123	Colleagues	154	+4	-	-	-	-
§128	F.P.	15.6	135	130	Dailywin	130		Rv6.0	2.2	5.8	8.8
§130	F.P.	49.4	147	136	Datrontech	147	+11	-	-	-	16.9
175	F.P.	102.7	178	170½	Expro Intl	174		Wv6.0	3.3	4.3	13.0
100	F.P.	20.0	101	100	F&C SUIT Units	100		-	-	-	-
100	F.P.	29.7	101	99	Geared Inc Inv C	99		-	-	-	-
§135	F.P.	15.4	138	115	Golden Rose	115		-	-	-	-
100	F.P.	183.2	103	95	HTR Inc Gth Sp Inc	102		-	-	-	-
478	170	6,076.7	193	158½	*Natl Power (P/P)	188	-5	F15.45	2.6	4.1	13.0
90	F.P.	17.5	92	90	PTS	92		L3.6	1.9	4.9	13.3
512	185	4,019.2	206	176½	*PowerGen (P/P)	185	-3	F15.0	3.2	3.7	11.1
-	F.P.	83.6	528	493	Schroder I G Uts	528		-	-	-	-
100	F.P.	22.8	97	95	Scott Or Smlr Cos	98		-	-	-	-
50	F.P.	3.10	52	40	Superframe	40		Rv2.0	1.6	6.2	9.9
-	F.P.	0.04	1600	0	Do. Warrants	0		-	-	-	-
145	F.P.	83.8	183	170	Zotefoams	178	+2	Wv4.65	2.1	3.3	17.8

* Note: Issue price 10p higher for institutional and overseas investors.

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

● "Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Weekly percentage changes are calculated on a Friday to Friday basis.

STOCK INDICES

[illegible]

FT MANAGED FUNDS SERVICE

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

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FT MANAGED FUNDS SERVICE

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OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

MANAGED FUNDS NOTES

LONDON SHARE SERVICE

BANKS, MERCHANT

	Notes	Price	W'k% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Barings 8pc Cm 2nd Prf.		50¼	—	8%	—	Jun Dec	14.11	1757
9¾pc Non-Cum Prf		45	—	9¾%	—	Jan Jul	14.11	1421
Cater Allen	‡†□	488	—	28.3	1.6	Jan Jul	12.12	2061
Close Bros	♣†□	281xd	2.0	7.5	2.9	Apr Oct	13.3	2199
Gerrard & Nat	♣†□	415	-.2	24.0	1.3	Jul Dec	7.11	2690
Hambros	□	218	2.3	15.0	1.1	Aug Dec	28.11	2812
7½pc Cv Pf		99	2.6	7½%	—	Oct Apr	20.2	4358
Joseph (L)	♣†	395	-4.7	17.85	1.9	Sep Dec	5.12	3080
King & Shaxson	♣	92	1.1	6.0	1.1	Jan Jul	19.12	3066
Kleinwort Benson	♣q□	643xd	-.6	21.5	2.1	May Oct	27.2	3102
Rea Bros	♣□	57	-1.7	3.0	♦	May Oct	29.8	3795
Schroders	♣q□	1543xd	1.2	20.5	6.0	May Oct	27.3	3939
N/V	q	1365xd	0.7	20.5	5.9	May Oct	27.3	3941
Singer & Fried	♣□	82	—	3.5	♦	Nov Jun	19.9	4025
Union	♣□	81xd	-6.9	2.0	♦	Apr Oct	13.3	4353
Warburg (SG)	♣□	733	2.2	22.0	2.4	Jul Dec	14.11	4425
Wintrust	♣†	205	-2.4	10.6	1.5	Oct Nov	20.2	4524

BANKS, RETAIL

BREWERIES

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

BUILDING MATS. & MERCHANTS - Cont.

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

Approved by the Inland Revenue

INVESTMENT TRUSTS - Cont.

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LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

INVESTMENT COMPANIES - Cont.

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL EXPLORATION & PRODUCTION - Cont.

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

OTHER SERVICES & BUSINESSES

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SPIRITS, WINES & CIDERS

[illegible]

SUPPORT SERVICES

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Cont.

[illegible]

WATER

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Anglo Am Ind		£32½	----	0450c	φ	Oct Apr	3'93	-
Barlow	♣	99¼	-3.2	058c	2.8	Jan Jul	12.12	-
Gold Flds Prop R		144xg	-2.0	058c	φ	Feb Sep	1'94	-
NK Props		90	----	067.1c	-	Feb Sep	10'93	-
SASDL	♥	683	-5	076c	-	Oct	9'93	-
SA Brews	†	£17	-2.2	0160c	2.2	Jun Dec	21.11	-
Tiger Oats		690	----	055c	2.8	Jan Jul	12.12	-
Tongaat-Hulett	†h	743	7.7	080c	2.4	Jan	1'94	-

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; unless "v" is shown in the Notes field, indicating that the cover is calculated on a "net" basis. *Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.*

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- φ Figures or report awaited
- ♥ Rule 2.1(4)(a) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ✤ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- ¶ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. *b Figures based on prospectus or other official estimates.* c Cents. g Assumed dividend. *h Assumed dividend after scrip issue.* m Interim higher than previous total. *n Rights issue pending* q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v P/e ratio & net cover calculated under new ACT guidelines. *z Dividend includes a special payment: Cover does not apply to special payment.* F Dividend based on prospectus or other official estimates for 1994-95. G Assumed dividend after pending scrip and/ or rights issue. H Dividend based on prospectus or other official estimates for 1995. I Dividend based on prospectus or other official estimates for 1994. L Estimated annualised dividend, cover based on *latest annual* earnings. M Dividend based on prospectus or other *official estimates for* 1995-96. Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; *xr ex rights;* xa ex all; xd ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1275 a year for each security shown, subject to the Editor's discretion

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Wiggins (Bld Cnst), Autobacs Seven (Dstbs), Inv Tst of Inv Tsts Ord & Wts, Montanaro UK Smlr Co's Ord & Wts (Inv Tsts), Throgmorton Dual Zero Pf (Inv Tst Split Cap) and Melrose Energy Wts (Oil Expl). Deletions: Kershaw (Eltcn & Elct), Greenfriar Wts (Inv Tst), *Quebecor Prntg (Paper & Pckg) and Stanhope Props (Prps).*

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An international service is available for callers outside the UK, annual subscription £250 stg.

Call 0171-873 4378 (+44 171 873 4378, International) for more information on FT Cityline.

4 pm close April 7

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1995 High	Low	Stock	Div	Yld. %	P/ E	Sls 100s	High	Low	Close Quote	Chg'e Prev. Close
14¼	12⅛	AAR	0.48	3.7	21	18	13	12⅞	12⅞	-⅛
23⅝	18¼	ALPharmaA	0.18	0.8	285	28	22⅞	22⅝	22⅞	-⅛
39⅛	35	AMP	0.92	2.4	22	3799	u39⅛	38¼	38¾	-¼
67⅛	53⅞	AMR			30	7890	d68⅝	65¼	66⅛	+1¼
47⅞	41⅞	ASA	1.71	3.7	30	514	46⅞	46¼	46½	-⅜
38⅞	30¼	AbbtL x	0.84	2.3	10	9728	37⅞	36⅞	37¼	-½
14⅝	12	Abitibi Pr	0.50	3.5	19	881	14½	14¼	14⅛	-⅛
24⅞	21	ABM Ind	0.60	2.8	12	291	21¾	21½	21⅝	+⅛
16⅝	14¼	Acpincelo			8	12	14¼	14⅝	14¾	
27	21⅞	ACE Ltd	0.44	1.7	8	332	29¼	25¾	26	-¼
9¾	8⅛	ACM Gvt In x	0.90	11.1	7	121	8¼	d8⅛	8⅛	-⅛
7½	6½	ACM GvOpp x	0.88	9.6		135	8⅞	6¾	6⅞	+¼
7½	5¾	ACM Gvt Sp x	0.75	12.9		90	6⅛	6¼	6¼	-⅛
8⅝	7¼	ACM Gvt Se x	0.90	12.0		600	7⅝	7½	7½	
0½	7⅝	ACM Man x	1.08	13.7		308	7⅞	7¾	7⅞	+⅛
7⅝	7⅛	ACM Mangd x	0.72	6.9		214	7¼	d7¼	7¼	
10¼	10¼	AcmeCh	0.45	2.8	11	281	u19¼	18⅝	18⅝	-⅛
21½	12⅞	Acme Elect			23	298	30½	19¾	20	
34½	31⅛	Acordia	0.72	2.2	15	27	32⅝	32¼	32½	+⅛
11⅞	9⅝	Actava	0.38	3.7	7	157	9⅞	8¾	9¾	
16¾	11⅛	Acuson			18	384	11⅝	11¼	11⅛	-⅛
16⅝	15⅝	Adams Expr	0.36	2.2	0	188	18½	16¼	18½	+¼
68½	53	Ad Micro				59	66	65	66	
35⅞	25	AdvMic			12	22601	u36⅞	35⅝	35⅞	+1½
6⅜	5	Advest Grp	0.18	2.8	28	88	5⅞	5⅝	5⅝	-¼
20⅞	18½	Advo Inc	0.10	0.5	17	47	u20⅞	20¾	20¾	-⅛
72½	63⅞	Aegon ADR	1.47	2.0	14	13	u73⅛	72⅜	73⅛	+1
4⅜	3⅜	Aerflex			5	76	4	3⅞	4	

[illegible]

- A - - B - - C - - D - - E - - F - - G - - H - - I - - J - - K - - L - - M - - N - - O - - P - Q - - R - - S -

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NYSE COMPOSITE PRICES

4 pm close April 7

Continued from previous page

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- T -

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- U -

[illegible]

- V -

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- W -

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- X - Y - Z -

[illegible]

Price data supplied by Telekurs

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NASDAQ NATIONAL MARKET

4 pm close April 7

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- B -

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- C -

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- D -

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- E -

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- F -

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- G -

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- U -

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AMEX COMPOSITE PRICES

4 pm close April 7

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FT GUIDE TO THE WEEK

MONDAY 10

EU foreign ministers meet

European Union foreign ministers start a two-day meeting in Luxembourg. On the agenda are preparations for the November 12 Euro-Mediterranean conference and the suspended interim trade agreement with Russia – but whether the ministers agree to proceed with it will depend on their assessment of events in Chechnya. Ministers from associated east European countries are expected to attend and will consider proposals for adapting their economies to the EU single market.

US shows support for Kiev

Strobe Talbott, US deputy secretary of state, concludes a two-day visit in Kiev. Mr Talbott follows William Perry, defence secretary, and precedes President Bill Clinton, who is due in the Ukrainian capital in early May. The parade of senior officials underscores US diplomatic initiatives in the former Soviet republic to support Ukraine's independence and nascent economic reform efforts.

Dole declares

US senate majority leader Bob Dole announces his candidacy for the 1996 Republican presidential nomination in Topeka, Kansas. This launches a five-day 10-state whirlwind fundraising tour concluding in Russell, Kansas, his home town. The climax is meant to commemorate the 50-year anniversary since his wounding in the second world war and to highlight President Bill Clinton's avoidance of the Vietnam war draft.

WTO disputes body meets

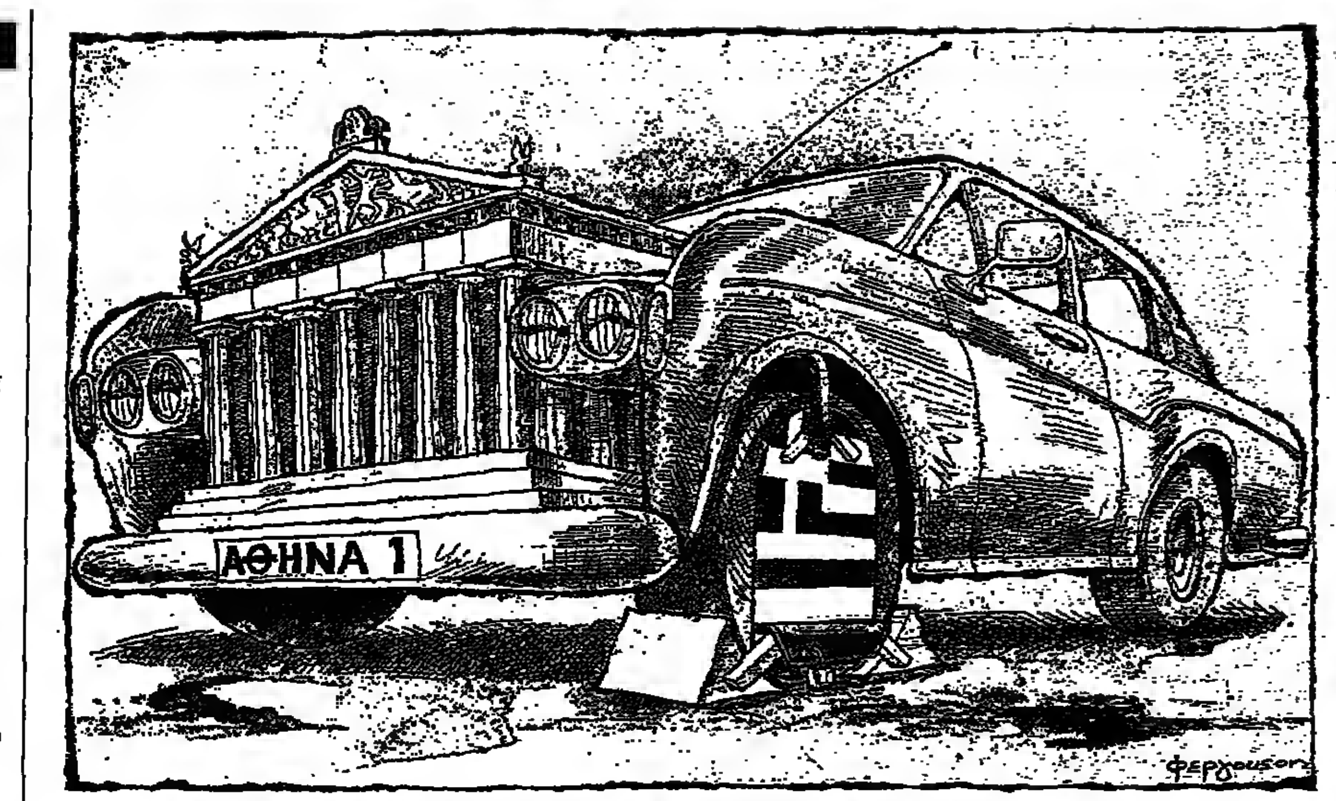
The disputes settlement body of the new World Trade Organisation meets to discuss establishing an independent panel on its first dispute. Venezuela is objecting to allegedly discriminatory US standards for "cleaner" petrol (reformulated gasoline).

Macao talks

Mario Soares, Portugal's Socialist president, begins a visit to Beijing to discuss continuing preparations for Macao's hand over to China in December 1999. Mr Soares will meet Jiang Zemin, China's president and Communist party leader, other senior officials.

Shi in Japan

Qiao Shi, powerful chairman of the Standing Committee of the National People's Congress (parliament) begins a visit to Japan and will then go on to Korea later in the week. Mr Qiao's visit to Tokyo precedes a visit to Beijing early in May by Tomiichi Murayama, Japan's prime minister.



Cars are banned from a 0.7 square mile area of Athens, below the Acropolis, for a three-month trial period from today

EBRD annual meeting

The European Bank for Reconstruction and Development holds its fourth annual meeting in London's Barbican Centre (to April 11) against the background of export-led growth and rising prosperity in central Europe.

Eurotunnel results

Eurotunnel, the company which operates the Channel tunnel, is due to announce its 1994 results. The company has already revealed that delays in launching train services last year reduced its revenues to less than a quarter of the £137m projected. Car shuttles, intercity Eurostars and freight services are all now running, but there continue to be some teething problems.

Japanese mission to Golan

Japan's ruling coalition parties send a delegation to the Israeli-occupied Golan Heights to study the possibility of sending Japanese peacekeepers there.

Athenians go on foot

Traffic is banned from today in the old commercial centre of Athens under an environment ministry plan to reduce atmospheric pollution and make the Greek capital more pedestrian-friendly. The 0.7 square mile traffic ban is a forerunner of a more ambitious scheme to close roads near the city's classical monuments, which would instead be linked by a network of footpaths.

UK police caution

A new UK police caution brought in to meet changes to the suspect's so-called "right to silence", introduced by the 1994 Criminal Justice and Public Order Act, comes into force. Longer than the 23-word version it replaces, the new caution reads: "You do not have to say anything. But it may harm your defence if you do not mention when questioned something which you later rely on in court. Anything you do say may be given in evidence."

Saleroom

A Mughal carpet, woven in India in about 1700 for a royal palace, is expected to sell for up to $900,000 at Christie's in New York. Only about a dozen of these "millefleur" carpets are known to have survived and this example is in excellent condition. It was acquired in the late 19th century by the American millionaire Cornelius Vanderbilt II for his New York mansion.

FT Surveys

Burgundy, Russia.

Holidays

Syria.

TUESDAY 11

US mission to Ankara

US foreign policy and security officials begin two days of talks in Ankara. The four-strong team, lead by Strobe Talbott, deputy secretary of state, will meet Tansu Ciller, the prime minister, and other senior government officials, as well as representatives from opposition and human rights and business organisations. The visit was planned well before Turkey's March 20 incursion into northern Iraq.

Kinkel visits Macedonia

Klaus Kinkel, Germany's foreign minister, travels to the Macedonian capital of Skopje for a one-day visit. Macedonian officials are expected to seek German support for the former Yugoslav republic, which has been subject to a trade blockade by Greece.

FT Survey

Investing in Pakistan.

Holidays

Costa Rica.

WEDNESDAY 12

Nuclear non-proliferation

Non-aligned countries hold a caucus meeting in New York to try to co-ordinate their positions for the Nuclear Non-Proliferation Treaty Extension Conference, which starts on April 17, also in New York.

Kurdish parliament in exile

Turkey's Kurdish opposition inaugurates a parliament in exile. It is to include a range of Kurdish groups, including representatives of the Kurdistan Workers party (PKK), engaged in an 11-year old guerrilla war against Turkish security forces.

Ankara is demanding European governments close the parliament.

EU plans on social policy

Padraig Flynn, EU commissioner for social affairs, will set out his programme for 1995 to 1997 at a Commission meeting. The action plan is not expected to contain as many proposals for legislative change as in past programmes.

EU probe into Crédit Lyonnais

EU commissioners also have on their agenda the matter of the French rescue plan for the state-owned bank Crédit Lyonnais. Its rivals have complained that the proposed bail-out constitutes unfair competition.

FT Surveys

Guernsey, Somerset.

Holidays

El Salvador, Guatemala, Mexico, Norway (Ash or Holy Wednesday); Thailand.

THURSDAY 13

Pressure to close Chernobyl

A G7 and EU senior delegation visits Kiev to lobby Ukraine to close the Chernobyl nuclear power plant. Hans van den Broek, EU external affairs commissioner, and Michel Barnier, France's environment minister representing the presidency of the EU, will be joined by a G7 representative from Canada in meetings President Leonid Kuchma and other Ukrainian officials.

Kiev officials have said the promised aid is insufficient to decommission the plant. The Ukrainian cabinet meets on Monday to discuss Chernobyl ahead of the mission.

Formula One ruling

The motor sport's governing body hears appeals against the disqualifications of Michael Schumacher and David Coulthard at the Brazilian Grand Prix. Schumacher, defending world champion, and Coulthard finished first and second in the race at São Paulo, but were disqualified five hours later when both their cars were found to be using irregular fuel. The hearing is expected to rule that Elf was in the wrong and that consequently points will not be restored.

Holidays

Maundy or Holy Thursday is observed in many countries.

FRIDAY 14

UK education

The National Union of Teachers, the largest UK teaching union, starts its annual conference in Blackpool with threats of industrial action over redundancies and class sizes close to becoming a reality in the summer term.

Gillian Shephard, the education secretary, who will have addressed the Secondary Heads Association at Warwick on Monday and the Association of Teachers and Lecturers at Harrogate on Wednesday in an attempt to persuade the more moderate elements of the profession against industrial action, has not been invited by the NUT.

Holidays

Good Friday is observed in many countries; Bangladesh, Sri Lanka (New Year).

SATURDAY 15

Apec finance ministers meet

Finance ministers of Asia Pacific Economic Co-operation member countries, including the US, Japan, and Mexico, are due to meet in Bali ahead of the Apec summit in Osaka later this year. They will discuss the effects of excessive exchange rate movements on trade and investment in the region, the problems associated with the movement of short-term capital among member countries, infrastructure and the development of small businesses in the region.

Holidays

Jewish Passover begins at dusk.

SUNDAY 16

Phone codes replaced in UK

Most UK telephone local area codes add a 1 after the initial 0, making them start with 01. Five large cities will receive completely new dialling codes: they are Bristol, Leeds, Leicester, Nottingham, and Sheffield. Non-geographical codes, such as those for mobile phones, the freephone number 0800 and local rate 0345 are unchanged. The UK access number for making international calls changes from 010 to 00 to bring it in line with other EU countries.

MONDAY 17

Non-proliferation treaty

Parties to the nuclear non-proliferation treaty gather in New York at the start of a conference to decide on extending the 1970 accord (to May 12). Participants have to decide whether to extend the 25-year-old treaty indefinitely, or "for an additional fixed period or periods". The US, Russia, and industrialised countries generally want an indefinite extension, but many non-aligned countries – led by Indonesia, Nigeria, Mexico, Egypt – feel that it would give nuclear powers a free ride.

Holidays

Easter Monday is observed in many countries; Syria (Independence Day).

Compiled by Patrick Stiles and Angela Bleasdale. Fax: (+44) (0)171-873 3194.

The FT Guide to the Week will next appear in the issue of Tuesday April 18.

Other economic news

Monday: Amid continuing currency turmoil, the markets will have a feast of inflation data to watch this week. Input price data in the UK are expected to show that sterling's recent weakness is feeding through to raw materials costs, with an 11 per cent rise in prices forecast over the year to March. However economists expect that only a third of this price rise will have been passed on to factory gate prices.

Tuesday: The producer price index in the US, by contrast, is expected to show more moderate rises.

Wednesday: Inflation data in France is likely to highlight the continued weak price growth last month. Meanwhile, UK employment figures are likely to show little sign of wage growth inflation, in spite of falling unemployment.

Thursday: UK inflation figures are likely to show little rise in High Street prices. In Japan, the wholesale price index is expected to confirm the extremely weak inflationary pressures there. Analysts expect prices to have fallen significantly in March, not least because the recent strength of the yen has driven down import costs.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	UK	Mar producer pace indx, input*	0.5%	0.2%
April 10	UK	Mar producer price indx, input**	11.4%	11.4%
	UK	Mar producer price indx, output*	0.3%	0.3%
	UK	Mar producer price index, output**	3.7%	3.6%
	UK	Mar PPI, ex-food, drink & tobacco**	3.8%	3.7%
	Spain	Feb producer price indx*	0.7%	1.6%
	Spain	Feb producer price indx**	6.1%	5.8%
	Canada	Mar raw materials price indx*	1%	1%
	Canada	Mar housing starts – units	136,000	135,000
Tues	US	Mar producer price indx	0.2%	0.3%
April 11	US	Ditto, ex-food & energy	0.3%	0.3%
	US	Johnson Redbook, w/e April 8	-	0.6%
	Japan	Feb mach'ry ord, ex-power, ships*	2%	-8.1%
	Japan	Feb mach'ry ord, ex-power, ships**	10.9%	1.7%
	Canada	Feb motor vehicle sales*	0.0%	-6.5%
Wed	US	Mar consumer price indx	0.3%	0.3%
April 12	US	Ditto, ex-food & energy	0.3%	0.3%
	US	Mar Atlanta Fed indx	-	-7.8
	US	Mar real earnings	-	-1.4%
	France	Mar consumer price indx prelim*	0.2%	0.4%
	France	Mar consumer price indx prelim**	1.7%	1.7%
	UK	Mar unemployment	-30,000	-27,400
	UK	Feb average earnings	3.5%	3.5%
	UK	Feb unit wages, 3-monthly**	1.3%	0.6%
	Spain	Mar consumer price indx*	0.4%	0.5%
Thur	US	Mar retail sales	0.4%	-0.4%
April 13	US	Ditto, ex-automobiles	0.3%	-0.3%
	US	Initial claims w/e April 8	342,000	341,000
	US	State benefits w/e April 1	-	2.53m
	US	M2, w/e April 3	-$1bn	-
	US	Mar M2	$8.5bn	-
	Japan	Mar wholesale price indx*	-0.6%	-0.1%
	Japan	Mar wholesale price indx**	-1.1%	-0.6%
	France	Jan current a/c†	FFr9bn	FFr12.9bn
	UK	Mar retail price indx*	0.3%	0.6%
	UK	Mar retail price indx**	3.4%	3.4%
	UK	Ditto ex-mortgage int'st payments**	2.7%	2.7%
	UK	Jan visible trade, global	-£0.8bn	-£1.6bn
Fri	US	Mar industrial production	-0.1%	0.5%
April 14	US	Mar capacity utilisation	85.5%	85.7%
	US	April Michigan sentiment prelim	-	90.3
	US	Feb business inventory	0.9%	0.9%
	US	Mar bank credit	-	4.3%
	US	Mar C&I loans	-	22.2%
	Italy	4th qtr gross domestic prod**	2.9%	3.7%
During the week...				
	Japan	Mar trade balance, customs cleared	$13.2bn	$14bn
	Germany	Mar wholesale price indx*	0.1%	0.7%
	France	Feb M3*†	0.2%	-0.2%

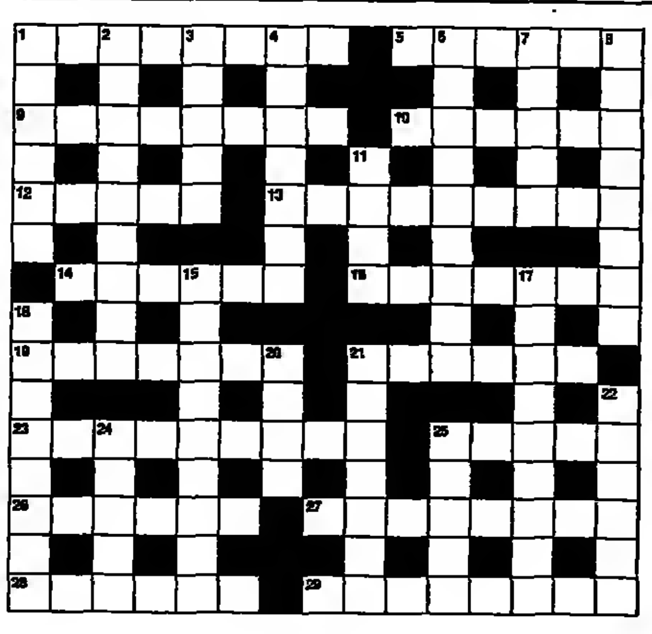
*month on month, **year on year, †seasonally adjusted *Statistics, courtesy MMS International.*

ACROSS

1 In salmon river Edward nearly finds another sport (8)
5 Second belief in long letter (6)
8 Excessive cry of pain about pests, in short (8)
10 Involve keeping things in the family? (6)
12 Heavy going at the FT (false) (5)
13 Gold followed by infinite credit (true) (9)
14 Interference (passive) (6)
16 Return of plenty among detectives (active) (7)
19 Nice arrangement eaten by insect (old) (7)
21 Naval custom (new) (6)
23 Form of tin, constant in perfect surroundings (same) (9)
25 Back to the lady (different) (5)
26 Boat, maybe a tug (6)
27 Tendency to write a song (8)
28 Boy at a piece of music (6)
29 Remains of rock when it rusted? (8)

DOWN

1 Leader of society, aristocratic, and too aware of it (8)
2 Little time in Greece makes one active (9)
3 Gets rid of depression (5)
4 Hard core, first in fashion, is old (7)
6 Democrat, tricked outside, was found guilty (9)
7 The old bill in particular (5)
8 You need tact to get choice food (8)
11 Nail for horses? (4)
15 Messmate in river received in surgery (9)
17 Moving salute by troops on April Fools' day (5,4)
18 Germ makes us ill: first take taxi back (8)
20 Food for fold (4)
21 Islanders see crooked after whisky (7)
22 Deserter among soldiers goes free (6)
24 Town where they make whisky, elevated spirit (5)
25 Prize for huge conveyance (5)



MONDAY PRIZE CROSSWORD

No.8,733 Set by CINEPHILE

A prize of a Pelikan New Classic 390 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday April 20, marked Monday Crossword 8,733 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday April 24. Please allow 21 days for delivery of prizes.

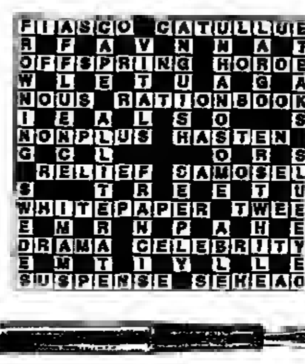
Name..........

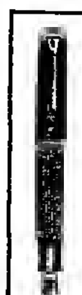
Address..........

Winners 8,721

C.C. Andreae, Isle of Wight
Mrs A. Millar, Warwickshire
Mrs A.M. Wight, Leighton Buzzard
Michael A. Scott, South Carolina
F. Chilton, Saltburn
H.A. Mollins, London, SW1

Solution 8,721





JOTTER PAD

هكذا من الأصل